

## **DISCRETIONARY GENERAL FUNDING AND RESTRICTED FUNDS**

County general fund operations of \$2.6 billion are funded with four major types of sources: countywide discretionary revenue (\$667.1 million), Proposition 172 revenue (\$156.0 million), 1991 and 2011 Realignment revenues (\$491.5 million), and departmental revenue (\$1.3 billion).

- Countywide discretionary revenue includes a variety of revenue sources that are not legally designated for a specific purpose or program. The majority of discretionary revenue is property related revenue, primarily property tax. Other revenue sources in this category include: sales and other taxes, net interest earnings, Countywide Cost Allocation Plan (COWCAP) revenue, which is a reimbursement for overhead/indirect costs incurred by the general fund, property tax administration revenues, recording fees, other State and federal aid, and other revenue. Additionally, the general fund's available fund balance, use of reserves and operating transfers in, are other funding sources that may be allocated to general fund departments in the same manner as countywide discretionary revenue.
- Proposition 172 revenue is a permanent extension of a half-cent Local Public Safety Sales Tax approved by California voters on November 2, 1993. Proceeds of this sales tax must be dedicated to public safety. Proposition 172 revenue is restricted and is used solely for funding the Sheriff/Coroner/Public Administrator, District Attorney, and Probation departments.
- 1991 Realignment revenue provides health and welfare funding. In 1991-92, the State approved the Health and Welfare Realignment Program that involved a shift of program responsibilities from the State to the County. This shift is funded through a corresponding shift of dedicated sales tax and vehicle license fee revenue. Realignment revenue is also restricted and used in funding mental health, social services and health programs within the County.
- 2011 Realignment revenue provides public safety, health, and welfare funding. In 2011-12, the State approved what has become known as AB 109 Public Safety Realignment. As part of this realignment, the State addressed prison over-crowding by shifting custodial responsibility of non-violent, non-sex, and non-sex-against-children ('Triple-Nons') offenders to local jails. In addition, the parole function of the State was delegated to county Probation departments. In conjunction with Public Safety Realignment, the State also shifted full financial burden of many social service and mental health programs. The County was responsible for delivery of these programs before realignment, but with the shift the State would no longer contribute a share of cost. While the State no longer shares in the cost, it has dedicated a portion of the State sales tax (1.0625%) revenue along with a portion of vehicle license fees for these realigned programs.
- Departmental revenue includes fees, service charges, and State and federal support for programs such as welfare, health care, and mental health.

County general fund operations not funded by departmental revenue, Proposition 172 revenue, and/or Realignment revenue are funded by Net County Cost (or Discretionary General Funding). Net County Cost is funded by countywide discretionary revenue, which is primarily property tax revenue.

Any countywide discretionary revenue not distributed to departments through their Net County Cost allocation, if not transferred to other funds for specific projects/programs, is contributed to contingencies or reserves. Every year the County of San Bernardino has set aside a prudent dollar amount in contingencies and reserves for two purposes: 1) to ensure that the County can accommodate unforeseen increases in expenditures or reductions in revenues, or other extraordinary events, which would harm the fiscal health of the County; and 2) to be proactive and set aside funds to meet future known obligations or to build a reserve for large capital projects.

The following sections provide details of:

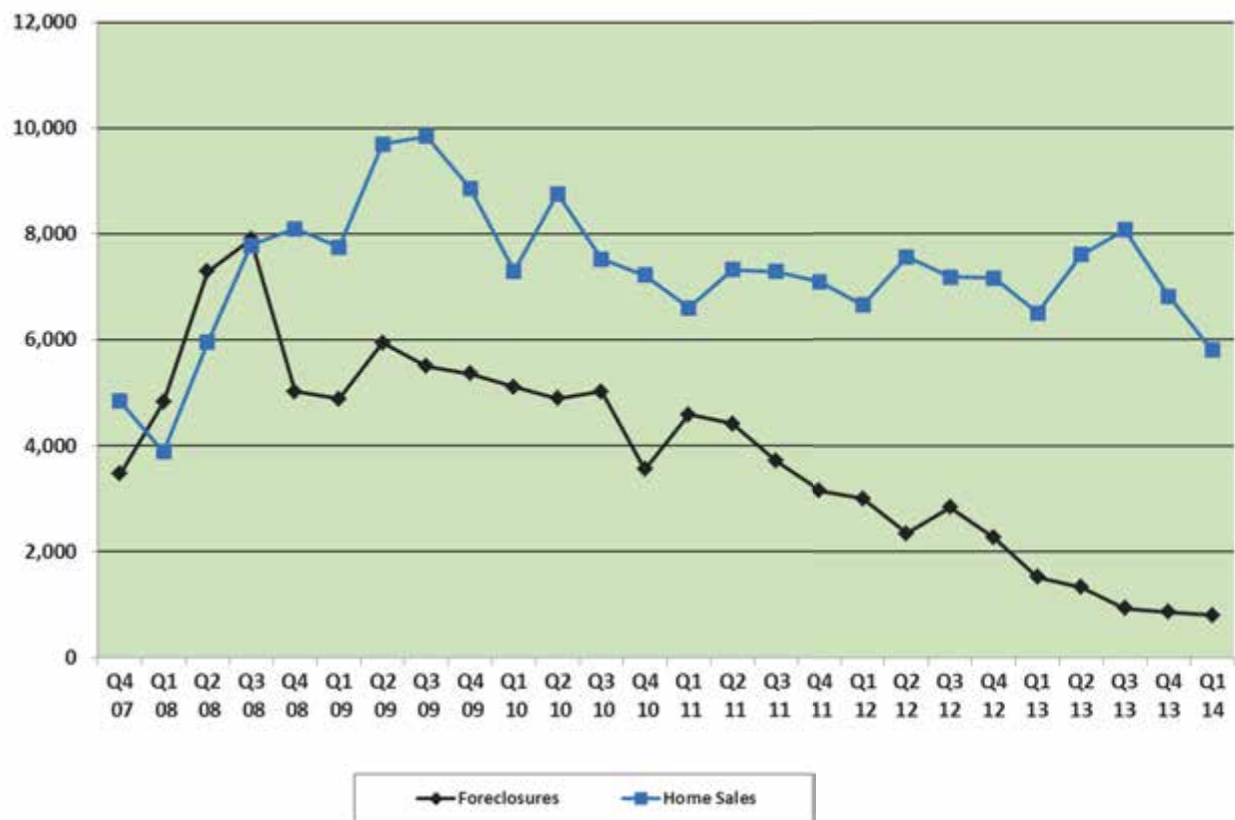
- The economic indicators that are factored into the County's fiscal plan.
- How economic indicators and other factors affect countywide discretionary revenue.
- How Discretionary General Funding (Net County Cost) has been allocated for the fiscal year.
- Information on general fund contingencies and reserves.
- How economic indicators and other factors affect Proposition 172 revenue and Realignment revenue.
- The County Restricted General Fund – Automated Systems Development budget unit.



## **ECONOMIC INDICATORS**

Property related revenue accounts for 67.6 percent of the County's discretionary revenue and other funding sources. These revenues have been severely impacted by the mortgage and financial crisis, which has had a significant effect on the housing market within the County. During this crisis, home values plummeted while foreclosures and notices of default skyrocketed. Assessed valuation was negatively affected both by homes selling at prices lower than their current assessed valuation, and by Proposition 8 reassessments, which lower valuations of properties (where no change in ownership has occurred) if the current assessed value of such property is greater than the fair market value of the property. However, as shown in the chart below, foreclosures, which at times outstripped home sales, have declined rapidly in the last three calendar years. In addition, as shown in the chart on the next page, the median home prices are rising.

**COUNTY OF SAN BERNARDINO  
FORECLOSURES/HOME SALES BY QUARTER  
QUARTER 4 2007 THROUGH QUARTER 1 2014**

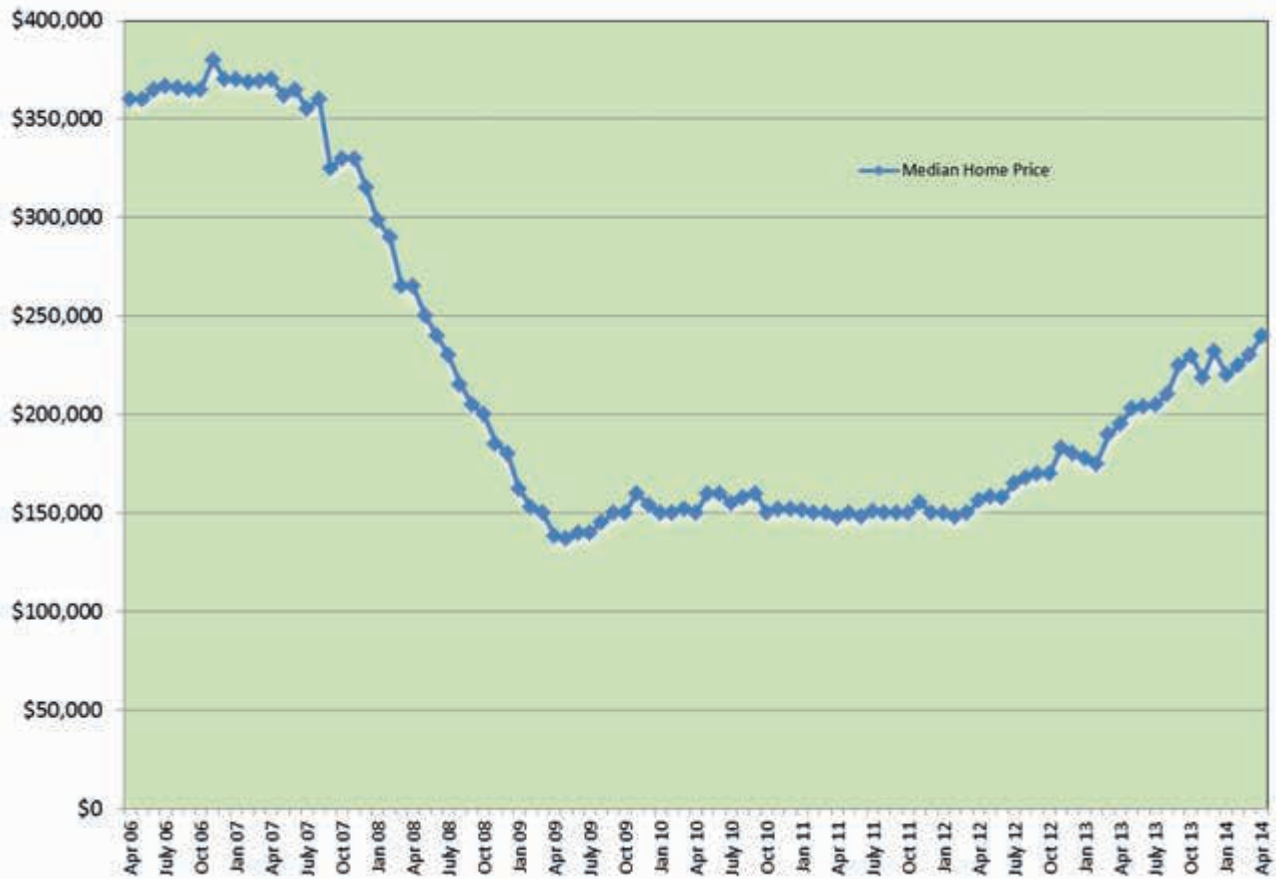


Source: County Assessor and Dataquick



2013 foreclosures were down 54.5% from 2012, and for the first quarter of 2014 are down by 43.5%. 2013 Notices of Default were down by 56.4% from the prior year, and for the first quarter of 2014 are up 4.3% (from 1,667 to 1,739). As foreclosures decline, the County is seeing a rise in the median price of a home. The chart below shows the fluctuation in the median price over the past eight years. Prior to the steady incline that began in November of 2012, the median price had been stable at approximately \$150,000 for the 34 month period between September 2009 and June 2012. As of April 2014, the County's median home price has risen to \$240,000.

**COUNTY OF SAN BERNARDINO  
MEDIAN HOME PRICE BY MONTH  
APRIL 2006 THROUGH APRIL 2014**

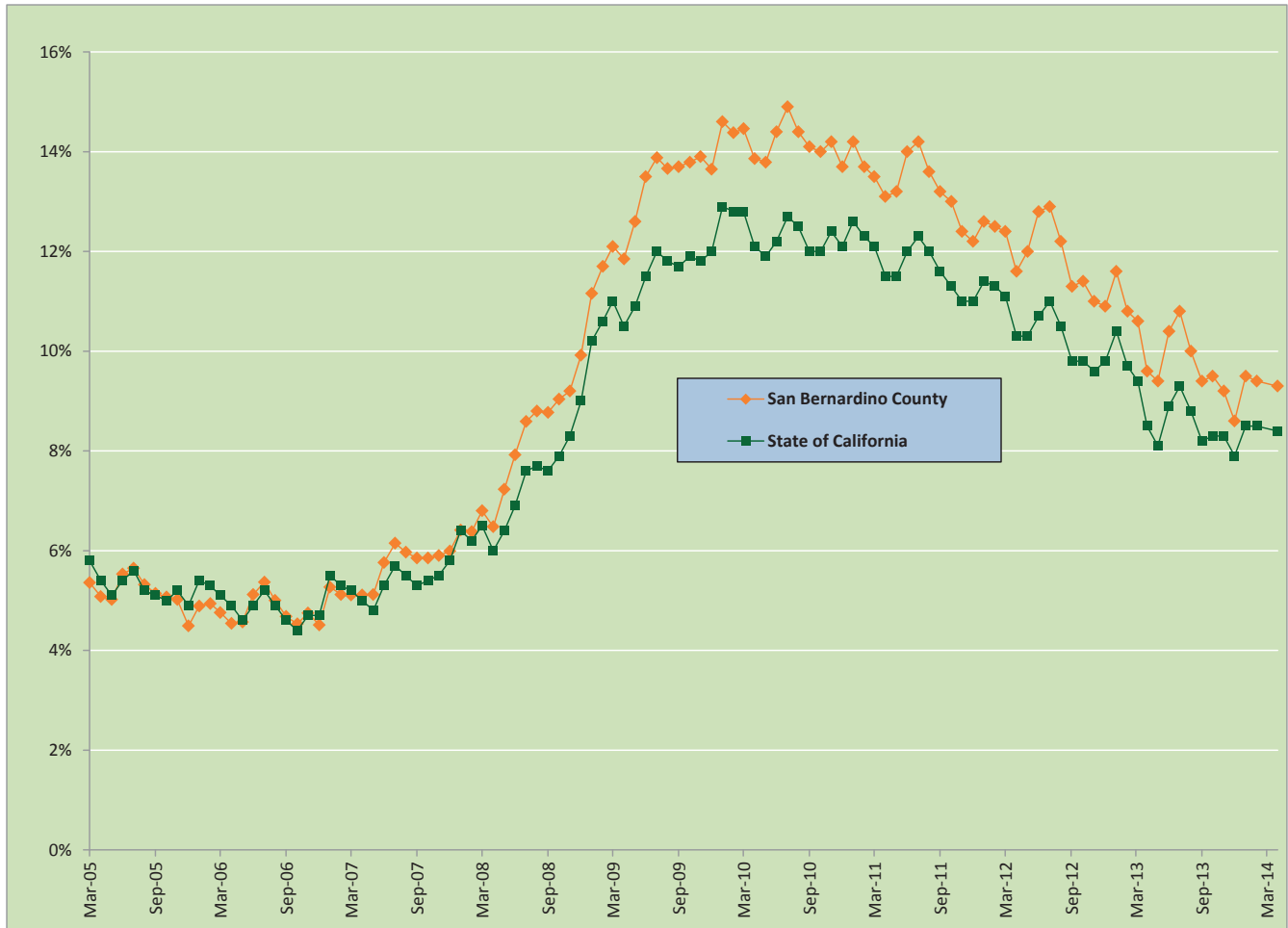


Source: Dataquick



In addition to the decline in property values, the loss of jobs in the County has led to high levels of unemployment, as shown in the chart below. Inland Empire Job losses from 2008 through 2010 totaled 148,500, in large part due to the downturn in the construction sector. County unemployment reached its peak at 14.9% in July 2010. However conditions are improving. 2012 saw job gains of 32,000 followed by a gain of 46,833 in 2013, and job growth for 2014 is forecasted at 40,100. Unemployment has declined from the 2010 peak, but remains high, returning to November 2008 levels at 9.3% as of March 2014, which compares to unemployment rates for the State and the United States of America, which were 8.4% and 6.7%, respectively.

**COUNTY OF SAN BERNARDINO  
UNEMPLOYMENT RATES  
STATE OF CALIFORNIA AND SAN BERNARDINO COUNTY  
MARCH 2005 THROUGH MARCH 2014**



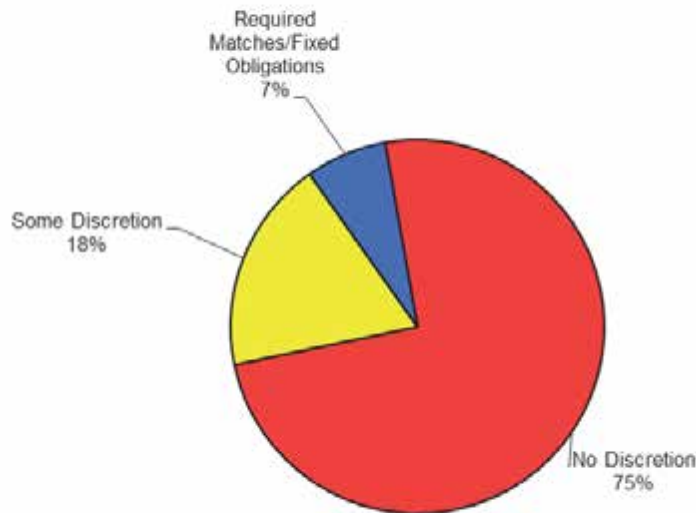
Source: CA Employment Development Department



## COUNTYWIDE DISCRETIONARY REVENUE

The entire general fund budget including operating transfers in is \$2.6 billion, however, only \$0.47 billion (or 18%) is truly discretionary as seen in this pie chart.

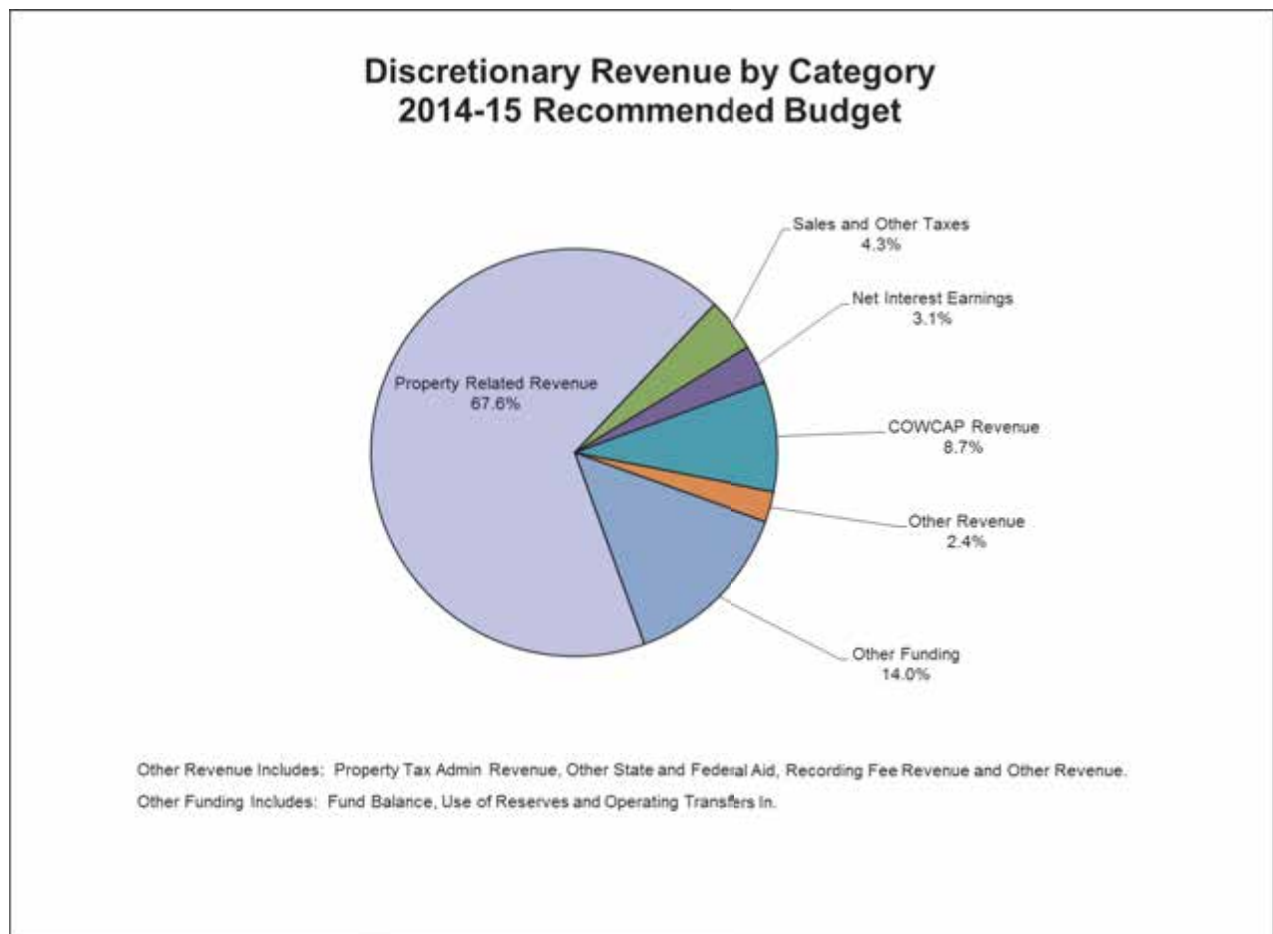
### 2014-15 Recommended Budget General Fund Spending



<b>SPENDING WHERE THERE IS NO DISCRETION. INCLUDES:</b>	<b>1,950,253,040</b>
Welfare costs reimbursed by state and federal monies (\$1,000.0 million)	
Other program costs funded by program revenues such as user fees (\$950.2 million)	
<b>REQUIRED HEALTH AND WELFARE MATCHES AND OTHER FIXED OBLIGATIONS:</b>	<b>195,432,663</b>
<b>SPENDING WHERE THERE IS DISCRETION. INCLUDES:</b>	<b>471,626,243</b>
Reserve Contributions (\$45.3 million)	
Law and justice program costs funded by local revenues (\$323.4 million)	
All other program costs funded by local revenues (\$102.9 million)	
<b>TOTAL:</b>	<b>\$2,617,311,946</b>

Countywide discretionary revenue is \$667,058,906 and is first obligated to pay for required health and welfare matches and other fixed obligations, which total \$195,432,663. The remaining amount of \$471,626,243 is available to fund departmental budgets' Net County Cost or other expenditures.

Shown below are the sources of countywide discretionary revenue of \$667,058,906 for the 2014-15 Recommended Budget:



Percentages may not add to 100% due to rounding.



**COUNTYWIDE DISCRETIONARY REVENUE WHICH PAY FOR NET COUNTY COST**

	<b>2013-14 Adopted Budget</b>	<b>2013-14 Modified Budget</b>	<b>2013-14 Estimate</b>	<b>2014-15 Recommended Budget</b>
<b>Countywide Discretionary Revenue</b>				
Property Related Revenue:				
Current Secured, Unsecured, Unitary	205,120,805	205,772,418	213,304,586	221,098,140
VLF/Property Tax Swap	205,214,371	208,247,095	208,073,777	215,356,359
Supplemental Property Tax	2,750,000	2,750,000	3,000,000	3,000,000
Property Transfer Tax	6,000,000	6,000,000	7,500,000	7,500,000
Penalty on Current Taxes	2,470,000	2,470,000	2,160,000	2,160,000
Prior Property Taxes, Penalties and Interest	2,250,000	2,250,000	1,690,000	1,690,000
<b>Total Property Related Revenue</b>	<b>423,805,176</b>	<b>427,489,513</b>	<b>435,728,363</b>	<b>450,804,499</b>
Sales and Other Taxes:				
Sales and Use Tax	19,587,302	19,587,302	20,427,247	20,245,138
Franchise Fees	5,810,000	5,810,000	6,924,886	5,950,000
Hotel/Motel Tax	1,200,000	1,200,000	1,500,000	1,500,000
Other Taxes	790,000	790,000	790,000	790,000
<b>Total Sales and Other Taxes</b>	<b>27,387,302</b>	<b>27,387,302</b>	<b>29,642,133</b>	<b>28,485,138</b>
Net Interest Earnings	19,225,000	15,429,242	9,186,906	20,550,000
COWCAP Revenue	53,977,428	53,977,428	53,977,428	57,921,243
Property Tax Admin Revenue	10,189,140	8,300,000	8,300,000	8,467,236
Recording Fee Revenue	3,500,000	3,500,000	3,500,000	3,500,000
State and Federal Aid	4,819,131	4,819,131	5,644,371	3,671,482
Other Revenue	430,000	93,708	6,330,014	430,000
<b>Total Countywide Discretionary Revenue</b>	<b>543,333,177</b>	<b>540,996,324</b>	<b>552,309,215</b>	<b>573,829,598</b>
<b>Other Funding Sources</b>				
Available Fund Balance, beginning	188,559,768	188,559,768	188,559,768	56,151,462
Fund Balance for Board Discretionary Fund Allocations	5,852,564	5,852,564	5,852,564	4,641,309
Use of Reserves	35,918,789	35,918,789	35,918,789	5,636,537
Operating Transfers In (One-Time)	10,568,256	4,568,256	3,746,438	5,700,000
Operating Transfers In (Ongoing)	22,800,000	21,100,000	21,100,000	21,100,000
<b>Total Other Funding Sources</b>	<b>263,699,377</b>	<b>255,999,377</b>	<b>255,177,559</b>	<b>93,229,308</b>
<b>Total Countywide Discretionary Revenue and Other Funding Sources</b>	<b>807,032,554</b>	<b>796,995,701</b>	<b>807,486,774</b>	<b>667,058,906</b>
<b>Locally Funded Appropriation</b>				
Total Countywide Discretionary Revenue	543,333,177	540,996,324	552,309,215	573,829,598
Operating Transfers In (Ongoing)	22,800,000	21,100,000	21,100,000	21,100,000
<b>Locally Funded Appropriation</b>	<b>566,133,177</b>	<b>562,096,324</b>	<b>573,409,215</b>	<b>594,929,598</b>

2014-15 Discretionary General Funding of \$667,058,906 includes Countywide Discretionary Revenue of \$573.8 million and Other Funding Sources of \$93.2 million. Per the County Fund Balance and Reserve Policy, the General Purpose Reserve will be built up with one-time sources until the target of 20% of locally funded appropriation is reached. A contribution of \$5,949,265 to the General Purpose Reserve (1% of locally funded appropriation) was approved by the Board of Supervisors as part of the 2013-14 Third Quarter Budget Report on May 6, 2014, and brings the funding level to \$82,440,902, or 13.9% of locally funded appropriation. County policy also requires a minimum of 1.5% of locally funded appropriation be placed in General Fund Mandatory Contingencies, which is \$8,923,944 for 2014-15.



### **Countywide Discretionary Revenue**

Property Related Revenue accounts for 68% of countywide discretionary revenue and other funding sources. These revenues have been severely impacted as a result of the mortgage and financial crisis, which has had a significant effect on the housing market within the County. Assessed valuation has been negatively affected both by homes selling at prices lower than their current assessed valuation, and by Proposition 8 reassessments, which lower valuations of properties (where no change in ownership has occurred) if the current assessed value of such property is greater than the fair market value of the property. However, the median price of a home in the County has started to rise and the volume of home sales remains relatively stable. Rising home prices are also leading to value being added back to the assessment roll for valuations that had been reduced through Proposition 8 reassessments.

The 2014-15 Recommended Budget anticipates a 3.5% increase in the assessed valuation of properties within the County. The revenue from the assessed valuation is budgeted conservatively compared to the County Assessor's projection of 5.68%, to account for potential downward corrections to the assessment roll during the fiscal year. The anticipated increase in the assessed valuation compares to actual assessed valuation declines of 4.55% in 2010-11, 0.87% in 2011-12, and increases of 0.78% in 2012-13, and 2.96% in 2013-14.

#### **Elimination of Redevelopment Agencies**

A portion of the General Fund's property tax revenue is pass-through of property tax increment belonging to Redevelopment Agencies. Redevelopment Agencies were dissolved as of February 1, 2012, pursuant to ABx1 26. Pursuant to ABx1 26, revenues that would have been directed to the dissolved Redevelopment Agencies will continue to be used to make pass-through payments to other public agencies (i.e., payments that such entities would have received under prior law). In addition, the State projects that the elimination of Redevelopment Agencies will provide additional property tax revenue for local public agencies, including the County. Beginning with 2014-15, the County has budgeted \$2.5 million of additional property tax revenue related to the dissolution of Redevelopment Agencies pursuant to ABx1 26 and continues to budget for pass-through payments consistent with the legislation.

#### **The Teeter Plan**

The Teeter Plan is an alternate property tax distribution procedure authorized by the California Legislature in 1949, and implemented by the County in 1993-94. Generally, the Teeter Plan provides for a property tax distribution procedure by which secured roll taxes are distributed based on the tax levy, rather than on the basis of actual tax collections, for agencies that elect to participate in the Teeter Plan (including the County general fund). Under the Teeter Plan, the County advances each participant an amount equal to the participant's Teeter Secured Levy (adjusted at year end for corrections to the assessment roll) that remains unpaid at the end of the fiscal year. In return, the County general fund receives all future delinquent tax payments, penalties and interest. The County bears the risk of loss on the delinquent property taxes but benefits from the penalties and interest associated with these delinquent taxes when they are paid. Under the Teeter Plan, the County is also required to establish a tax loss reserve fund to cover losses that may occur as a result of sales of tax-defaulted properties.

The Teeter Secured Levy includes each participating agency's share of the 1% ad valorem secured levy, plus any ad valorem levy for the debt service of voter-approved general obligation bonds. Not included in the Teeter Secured Levy are supplemental roll revenues, special assessments, utility roll revenues, or property tax pass-through amounts from Redevelopment Agencies within the County (see 'Elimination of Redevelopment Agencies' above).

As a participant in the Teeter Plan, the County general fund receives its entire share of its Teeter Secured Levy, regardless of delinquencies. The County general fund also receives all participating agencies share of the penalties and interest associated with the delinquent taxes advanced under the Teeter Plan once they are paid. These interest and penalties, accounted for as interest earnings in countywide discretionary revenue, are projected to increase slightly in 2014-15.

The following paragraphs describe the components of property related revenue in detail:



**Current Secured, Unsecured, Unitary**

Secured Property Tax Revenue makes up approximately \$196.3 million of the \$221.1 million in the 2014-15 “Current Secured, Unsecured, Unitary” budgeted revenue number, up from \$182.0 million in the 2013-14 Adopted Budget. This reflects a projected increase in assessed valuation of 3.5%. Beginning with 2014-15, the County has budgeted \$2.5 million of additional property tax revenue related to the dissolution of Redevelopment Agencies pursuant to ABx1 26 and continues to budget for pass-through payments consistent with the legislation (see ‘Elimination of Redevelopment Agencies’ on the previous page).

**VLF/Property Tax Swap**

Historically, approximately three-fourths of Vehicle License Fee (VLF) revenue was allocated to cities and counties as general purpose funding. Beginning in 1998-99, the State reduced the VLF payment required from vehicle owners. However, the State made up the revenue impact of the VLF rate reductions with State general fund revenue (the ‘VLF Backfill’).

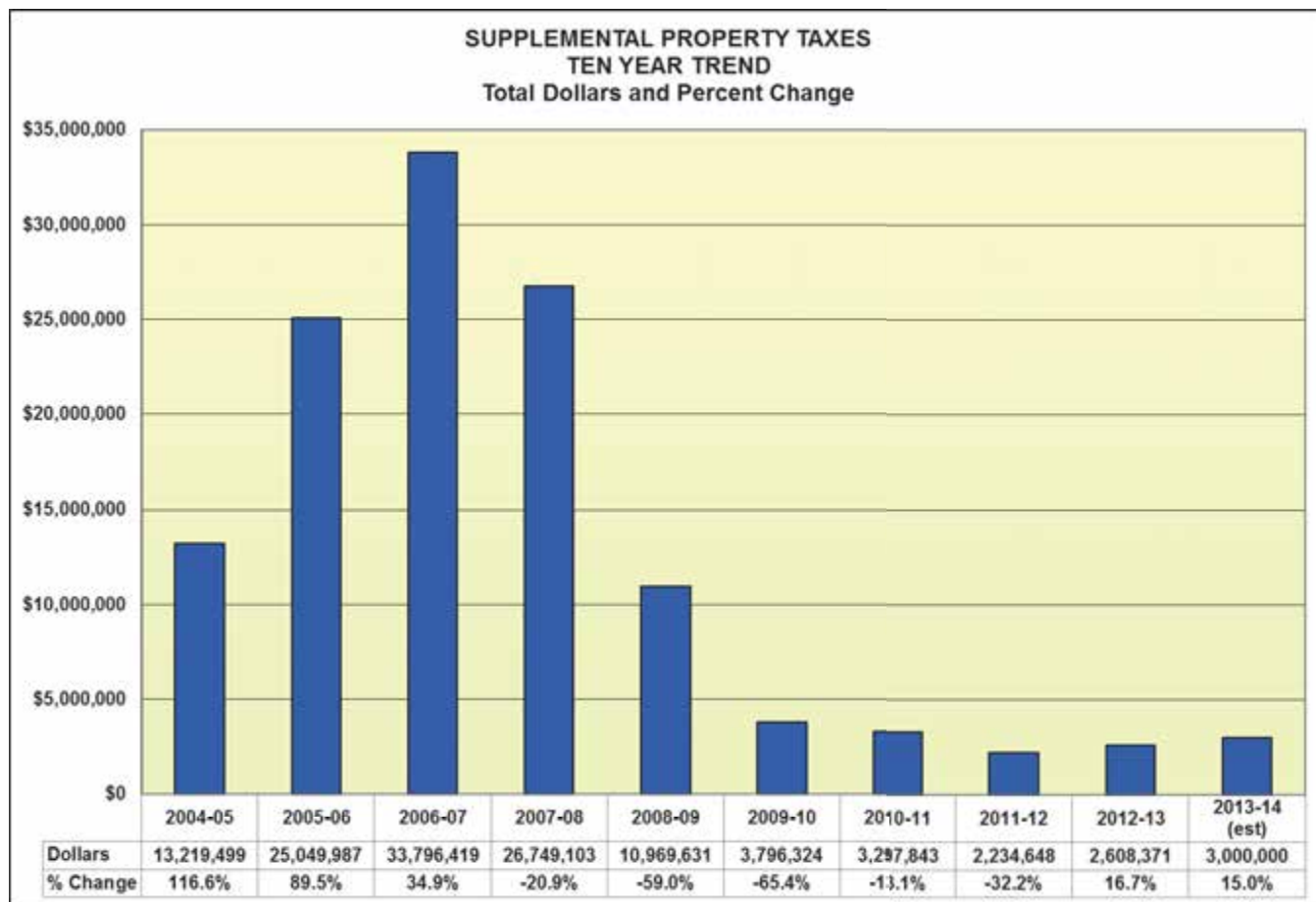
The VLF Backfill was eliminated in the 2004-05 State Budget. In that year, the VLF Backfill to cities and counties was permanently replaced with an equivalent increase in property tax revenues (VLF/Property Tax Swap revenues). This increase was funded by decreases in property tax revenues allocated to schools and community colleges.

For 2004-05, the State established the base amount of the VLF/Property Tax Swap. The base is equal to the amount of VLF backfill that the counties and cities would have received in 2004-05, calculated using actual VLF receipt amounts for 2004-05. For years beginning in 2005-06, the VLF/Property Tax Swap amount is calculated using the prior year VLF/Property Tax Swap amount adjusted by the percent change in assessed valuation. This percent change includes both secured and unsecured assessed valuation, but excludes the change in unitary valuations. The 2014-15 budgeted amount reflects the projected increase in assessed valuation of 3.5% as compared to the 2013-14 Adopted Budget.

**Supplemental Property Tax**

Supplemental Property Tax payments are required from property owners when there is a change in the assessed valuation of their property after the property tax bill for that year has been issued. Generally, there are two types of events that will require a supplemental property tax payment: a change in ownership or the completion of new construction. As a result, when property values have been increasing and sales activity is high, there will be an increase in the number and dollar amount of supplemental property tax bills, which will result in increased supplemental property tax revenue to the County. Conversely, when home values are decreasing, refunds may be due to homeowners, and supplemental property tax revenues will decrease. Because the collection of these revenues may not occur for one to two years after the sale of the property, supplemental property tax revenue will generally lag the reality in the housing market by at least a year.



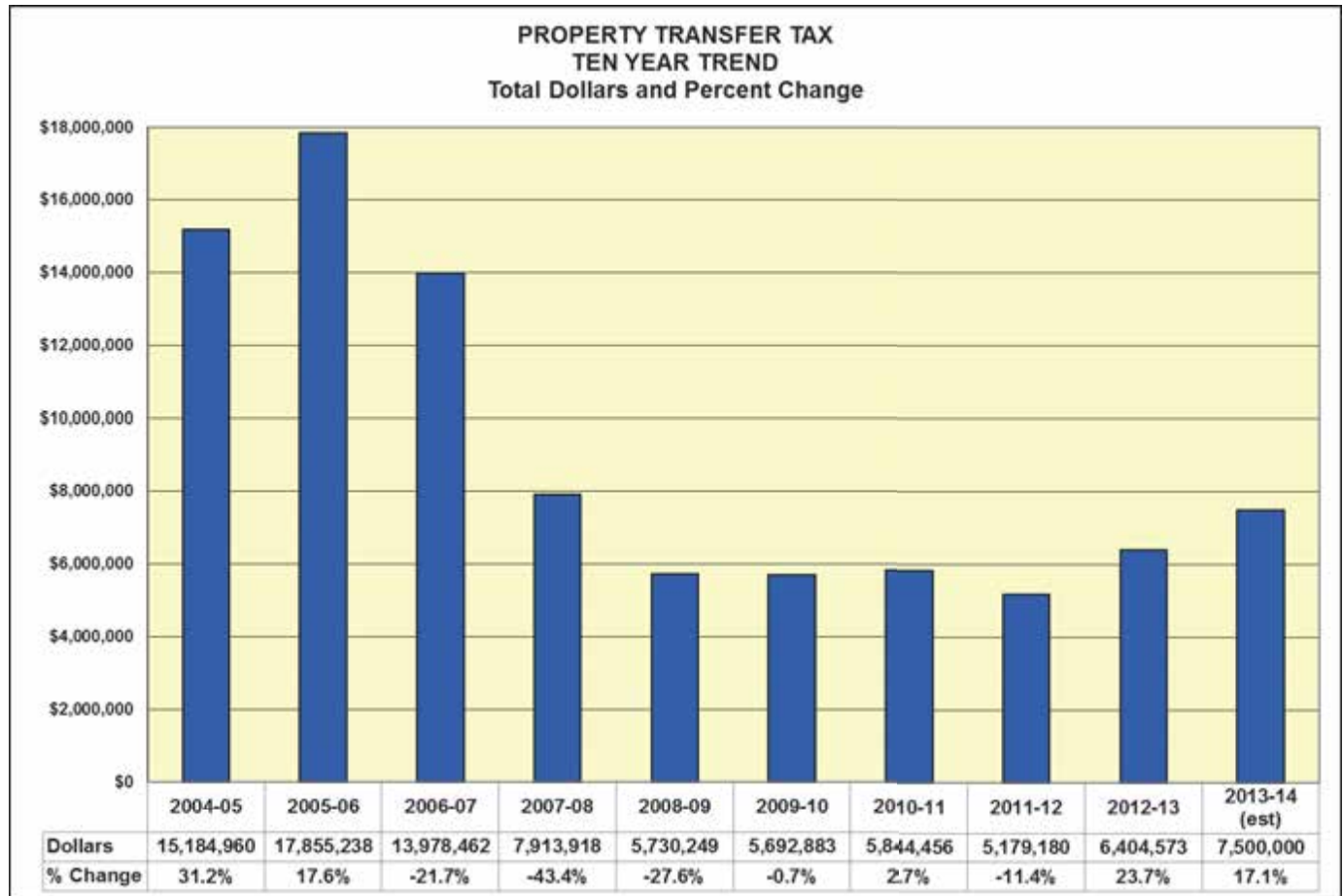


As shown in the chart above, supplemental property tax revenues have declined significantly since 2006-07 as a result of the collapse of the housing market. Supplemental revenue in 2012-13 showed the first year over year increase since 2006-07. The County projects these revenues to be \$3.0 million in 2014-15, consistent with 2013-14 estimated revenue.



### Property Transfer Tax

The Property Transfer Tax is collected when any lands, tenements, or other realty sold within the County is granted, assigned, transferred, or otherwise conveyed to or vested in the purchaser. The tax is imposed when the value of the property exceeds \$100. The tax rate is \$0.55 for each \$500 of property value. For sales in the unincorporated areas of the County, the County receives 100% of the tax. For sales in cities, the County receives 50% of the tax. The County anticipates that property transfer tax will total \$7.5 million in 2014-15, consistent with 2013-14 estimated revenue. The following chart presents the most recent ten year trend of property transfer tax revenue.



### Sales and Use Tax

Countywide discretionary revenue includes 1.0% of the 8.0% sales tax rate charged on purchases made in the unincorporated areas of the County. This 1.0% is made up of two components. The first is 0.75% of taxable sales remitted by businesses that collect sales tax. The second component is the Sales Tax/Property Tax Swap, also referred to as the Triple Flip, which represents 0.25% of taxable sales. Both of these components are explained in more detail below.

#### Sales and Use Tax Allocation of 0.75%

When preparing the annual budget, the County projects future sales tax revenue based on data provided by a local economist and the County's sales tax consultant. For 2014-15, Sales and Use Tax revenue is anticipated to remain flat to 2013-14 actual revenue.

2014-15 ongoing sales tax revenue in the unincorporated area is projected to total \$17.2 million (after adjusting for the Triple Flip). However, the County has budgeted only \$14.5 million for 2014-15. The sales tax revenue



projection of \$14.5 million excludes the portion of the County ongoing sales tax revenue remitted to the City of Redlands under the sales tax sharing agreement explained below:

**Sales Tax Sharing Agreement with the City of Redlands:** In August of 2003, the County entered into a sales tax sharing agreement with the City of Redlands. Under the terms of this agreement, the City of Redlands provides certain government services to an unincorporated area of the County, and in return the County pays the City a percentage of the sales tax revenue generated in that geographical area. This geographical area has numerous retail establishments and generates a considerable amount of sales tax revenue. Under the terms of the sales tax sharing agreement, the County currently pays the City of Redlands 90% of the County discretionary sales tax revenue generated in this area.

**Sales Tax Risk – Potential Annexations and Incorporations:** Based on recent estimates, approximately 29.9% of the County's discretionary sales tax revenue is generated in the unincorporated portion of the spheres of influence of the 24 cities that are within the County's boundaries. A sphere of influence is a 'planning boundary' within which a city or district is expected to grow over time. Therefore, the areas within these spheres are likely to be annexed, and once annexed, the discretionary sales tax revenue generated in that area will go to the city instead of the County. The County would also lose sales tax revenue if a community in the unincorporated area of the County decided to create a new city (incorporate).

#### Sales Tax/Property Tax Swap of 0.25%

Effective with the fiscal year that began on July 1, 2004, the State changed the way sales tax revenue is distributed to counties and cities. Previously, counties and cities received 1.0% of the State's base sales tax rate. Pursuant to new provisions enacted by the legislature, this 1.0% share of sales tax was reduced by 0.25%, to 0.75%. The additional 0.25% in sales tax revenue was redirected to the state to be used to fund debt service on the California Economic Recovery Bonds, which were approved by voters as Proposition 57. In return, counties and cities receive additional property tax revenue (funded by reducing the schools' share of property tax revenue) in an amount equal to the 0.25% sales tax revenues forgone. The State general fund then makes up the loss of property tax revenue to the schools. This change is referred to as the 'Triple Flip'. The Triple Flip will continue until the California Economic Recovery Bonds are paid. Once the bonds are paid, and the Triple Flip is discontinued, the County's share of the base sales tax rate will return to 1.0%. The bonds are currently scheduled to mature on July 1, 2023.

The Triple Flip was designed to replace sales tax revenue on a dollar for dollar basis with property tax revenue. In practice, the additional property tax revenue paid to the counties and cities each year is based on an estimate of the agencies' sales tax revenue for the year plus a 'true-up' from the prior year. This true-up represents the difference between the additional property tax revenue paid to the local agency and the actual amount of sales tax revenue (the 0.25%) lost by the local agency.

For 2014-15, the County anticipates \$5.7 million in Triple Flip revenue which includes an estimated \$0.4 million in true-up from the prior year.

Both components of discretionary sales tax revenue (Sales and Use Tax Allocation of 0.75%, and Sales Tax/Property Tax Swap) are combined and reported together as Sales and Use Tax in the Countywide Discretionary Revenue Which Pay for Net County Cost chart found earlier in this section. This is a change from prior years. In prior years, Sales Tax/Property Tax Swap revenue was reported as a separate line under Property Related Revenue. For 2014-15, a combined total of \$20.2 million is budgeted for Sales and Use Tax, \$14.5 million for the 0.75% Allocation and \$5.7 million of Sales Tax/Property Tax Swap revenue.

Not included in budgeted sales and use tax revenue is \$3.5 million of one-time use tax revenue estimated to be generated from major construction projects in the unincorporated areas of the County. This revenue would normally be distributed to the County, and cities within the County, based on their percent share of countywide sales tax revenue. However, due to the efforts of the Economic Development Department working with companies doing this construction, 100% of this revenue will be allocated to the County. Because this revenue is one-time in nature, it is budgeted as Operating Transfers In (one-time) instead of sales and use tax revenue.



### **Net Interest Earnings**

Net interest earnings for 2014-15 are projected at \$20.6 million. This is \$1.3 million higher when compared to the 2013-14 Adopted Budget amount. The anticipated growth is due to an increase in Teeter revenue penalties and interest and retirement prepay interest. For more information see the section titled 'The Teeter Plan' on page 8 of this section.

### **COWCAP (Countywide Cost Allocation Plan) Revenue**

The budgeted COWCAP Revenue amount reflects the recovered allowable costs included in the 2014-15 Countywide Cost Allocation Plan (COWCAP) published by the Auditor-Controller/Treasurer/Tax Collector. COWCAP revenue is reimbursement for overhead/indirect costs incurred by the General Fund. Reimbursements are received from various state and federal grant programs (that permit such reimbursement) and general fund departments and taxing entities such as the County Library and Board-governed Special Districts. The County anticipates an increase in COWCAP revenue in an amount of \$3.9 million in 2014-15. This increase is primarily due to amounts owed by the Probation Department for ongoing space use and utility costs associated with the new Central Valley Juvenile Detention and Assessment Center, and from ARMC primarily due to a one-time adjustment that reduced ARMC's COWCAP charges in the prior year.

### **Property Tax Administration Revenue**

Property tax administration revenue consists of:

- SB 813 cost reimbursement, which represents allowable charges for administration and operation of the supplemental property tax program. This reimbursement is tied directly to the performance of supplemental property tax revenue.
- The property tax administrative fee, which is allowed by the legislature, recovers a portion of the County's cost of the property assessment and tax collection process from certain other local jurisdictions. This revenue is tied directly to the cost of that collection effort. School Districts are not required to pay their share of this fee, so not all County costs are recovered.

Litigation regarding the Property Tax Administration Fee (PTAF). Forty-three cities sued Los Angeles County over the portion of PTAF fees calculated on the State revenue exchanges known as the Triple Flip and Vehicle License Fee (VLF)/Property Tax Swap. All California counties have included the Triple Flip and VLF/Property Tax Swap in the base for the calculation of the cities' share of this fee. The Court recently ruled in favor of the cities. On an annual basis, this ruling resulted

in the loss of \$2.9 million of annual PTAF fees beginning in 2013-14. The 2014-15 Recommended Budget anticipates revenues to be relatively flat compared to the 2013-14 estimate.

### **Recording Fee Revenue**

The Recorder's Division of the County's Assessor/Recorder/County Clerk's Office collects certain fees for the official recording of documents. Recording Fees are expected to remain flat compared to the 2013-14 estimate.

### **State and Federal Aid**

State and federal aid consists of a payment from the welfare realignment trust fund, which replaced the State revenue stabilization program, SB90 reimbursements from the State, and excess Vehicle License Fee (VLF) revenue. It also includes revenues received from the federal government's Payment in Lieu of Taxes (PILT) program. The Emergency Economic Stabilization Act of 2008 (Public Law 110-343) was enacted on October 3, 2008 and authorized full funding for the PILT program from 2008 through 2012, which generated approximately \$1.0 million in additional PILT revenue annually. Although scheduled to end in 2012, the full funding level for PILT was extended through federal fiscal year 2013 (October 1, 2012 to September 30, 2013). This program has not been reauthorized for the 2014 Federal Fiscal Year. As a result, PILT revenues will decline by \$1.1 million in 2014-15.

### **Other Revenue**

Other revenue includes voided warrants issued by the County, projected transfers of unclaimed property tax refunds to the General Fund, the county share of vehicle code violation revenue, and other miscellaneous revenues.



### **Other Funding Sources**

#### **Fund Balance**

The 2013-14 estimated year-end fund balance for the General Fund is \$56.2 million. This reflects fund balance that is available for appropriation. Anticipated fund balance is a result of County cost savings and additional revenue. Additional revenue includes one-time revenue of \$18.0 million received as a result of due diligence reviews and residual revenue for the dissolved Redevelopment Agencies, and one-time revenue of \$1.8 million for a Court revenue audit.

#### **Use of Reserves**

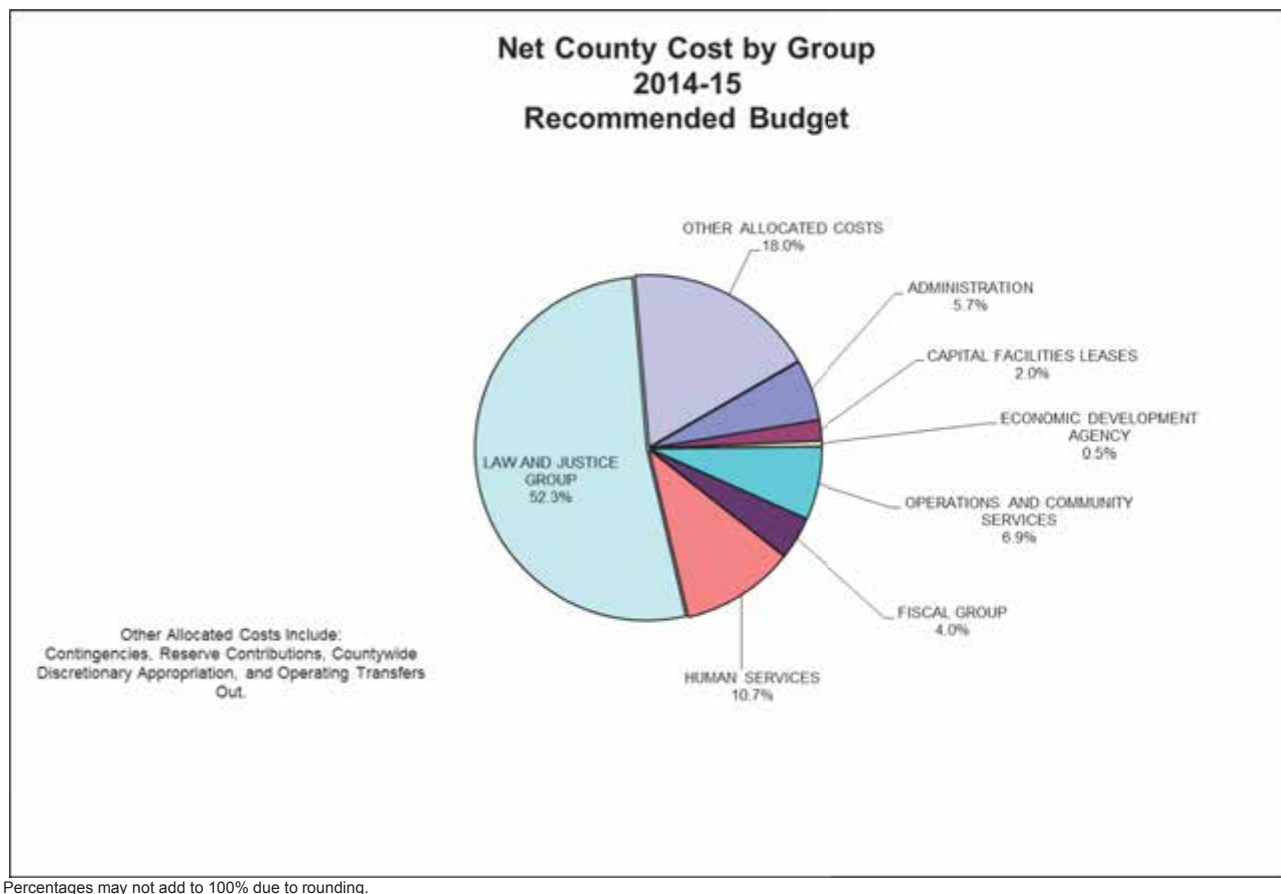
The 2014-15 Recommended Budget anticipates the use of \$0.3 million of the reserve for Land Use Services General Plan/Development Code Amendments to fund a portion of this project, and the use of \$5.3 million of the Glen Helen Grade Separation Project reserve to fund various transportation projects, including \$4.0 million to complete the Glen Helen Grade Separation project.

#### **Operating Transfers In**

Operating transfers in primarily include \$17.0 million of ongoing tobacco settlement funds to provide \$15.0 million of ongoing funding for debt service on the Arrowhead Regional Medical Center and \$2.0 million of ongoing funding for Public Health. Ongoing operating transfers in also include \$4.1 million of ongoing Courthouse and Criminal Justice Construction funds to fund debt service on the Foothill Law and Justice Center. One time operating transfers in include \$2.2 million from tobacco settlement funds for a land purchase and \$3.5 million of estimated one-time sales tax revenue discussed in the section titled 'Sales and Use Tax'.



Countywide discretionary revenue is allocated as Net County Cost to various general fund departments within the County. The pie chart below shows what percentage of the Net County Cost is allocated to each of the groups.



Percentages may not add to 100% due to rounding.

The schedule on the following page shows a comparison of 2013-14 modified Net County Cost and 2014-15 recommended Net County Cost by department. This schedule also includes requirements and sources, including operating transfers, which are mechanisms to move funding between the various county budget units. Operating transfers are presented in the following chart because the intended purpose is to provide a complete picture of the department's requirements and sources.



Department Title	2013-14 Modified Budget:			2014-15 Recommended Budget:		
	Requirements	Sources	Net County Cost	Requirements	Sources	Net County Cost
BOARD OF SUPERVISORS (ALL DISTRICTS)	7,142,316	-	7,142,316	7,190,670	-	7,190,670
CLERK OF THE BOARD	2,354,436	313,578	2,040,858	2,258,163	248,293	2,009,870
COUNTY ADMINISTRATIVE OFFICE	5,044,435	-	5,044,435	4,511,139	-	4,511,139
COUNTY ADMINISTRATIVE OFFICE - LITIGATION	589,763	-	589,763	392,599	-	392,599
COUNTY COUNSEL	8,780,823	5,683,270	3,097,553	8,817,154	5,713,350	3,103,804
FINANCE AND ADMINISTRATION	2,861,586	-	2,861,586	2,889,619	-	2,889,619
HUMAN RESOURCES	7,297,316	669,917	6,627,399	7,456,955	675,623	6,781,332
HUMAN RESOURCES - UNEMPLOYMENT INSURANCE	4,000,500	-	4,000,500	4,000,500	-	4,000,500
HUMAN RESOURCES - EMPLOYEE HEALTH AND WELLNESS	2,080,388	2,069,041	11,347	2,152,634	2,152,634	-
INFORMATION SERVICES - APPLICATION DEVELOPMENT	15,824,820	13,720,515	2,104,305	2,264,212	216,872	2,047,340
PURCHASING	2,227,760	557,076	1,670,684	2,117,341	590,504	1,526,837
LOCAL AGENCY FORMATION COMMISSION	288,274	-	288,274	288,274	-	288,274
COUNTY SCHOOLS	3,159,104	-	3,159,104	3,270,620	-	3,270,620
<b>ADMINISTRATION SUBTOTAL:</b>	<b>61,651,521</b>	<b>23,013,397</b>	<b>38,638,124</b>	<b>47,609,880</b>	<b>9,597,276</b>	<b>38,012,604</b>
CAPITAL FACILITIES LEASES	13,013,014	-	13,013,014	13,016,519	-	13,016,519
<b>CAPITAL FACILITIES LEASES SUBTOTAL:</b>	<b>13,013,014</b>	-	<b>13,013,014</b>	<b>13,016,519</b>	-	<b>13,016,519</b>
ECONOMIC DEVELOPMENT	3,135,452	155,000	2,980,452	3,468,279	155,000	3,313,279
<b>ECONOMIC DEVELOPMENT AGENCY SUBTOTAL:</b>	<b>3,135,452</b>	<b>155,000</b>	<b>2,980,452</b>	<b>3,468,279</b>	<b>155,000</b>	<b>3,313,279</b>
ASSESSOR/RECORDER/COUNTY CLERK	22,985,256	7,116,602	15,868,654	22,890,787	7,145,500	15,745,287
AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR	37,110,409	26,084,063	11,026,346	36,880,704	26,188,884	10,691,820
<b>FISCAL SUBTOTAL:</b>	<b>60,095,665</b>	<b>33,200,665</b>	<b>26,895,000</b>	<b>59,771,491</b>	<b>33,334,384</b>	<b>26,437,107</b>
HEALTH ADMINISTRATION	150,585,267	135,584,459	15,000,808	120,730,613	105,730,613	15,000,000
BEHAVIORAL HEALTH	153,045,439	151,053,228	1,992,211	172,139,912	170,147,701	1,992,211
PUBLIC HEALTH	79,729,138	75,570,548	4,158,590	79,432,808	75,220,029	4,212,779
PUBLIC HEALTH - CALIFORNIA CHILDREN'S SERVICES	21,124,770	16,335,156	4,789,614	21,359,774	16,673,628	4,686,146
PUBLIC HEALTH - INDIGENT AMBULANCE	472,501	-	472,501	472,501	-	472,501
AGING AND ADULT SERVICES	9,168,115	9,168,115	-	8,926,323	8,926,323	-
AGING AND ADULT SERVICES - PUBLIC GUARDIAN-CONSERVATOR	916,642	286,850	629,792	814,564	202,951	611,613
CHILD SUPPORT SERVICES	40,495,812	40,495,812	-	40,039,593	40,039,593	-
HUMAN SERVICES - ADMINISTRATIVE CLAIM	493,430,026	477,722,675	15,707,351	503,236,205	489,059,585	14,176,620
DOMESTIC VIOLENCE/CHILD ABUSE SERVICES	531,812	531,812	-	531,812	531,812	-
ENTITLEMENT PAYMENTS (CHILDCARE)	31,244,447	31,244,447	-	26,360,535	26,360,535	-
OUT-OF-HOME CHILD CARE	810,566	-	810,566	860,566	-	860,566
AID TO ADOPTIVE CHILDREN	56,334,041	54,384,521	1,949,520	59,208,232	57,158,712	2,049,520
AFDC - FOSTER CARE	123,710,568	106,395,312	17,315,256	124,188,480	106,773,073	17,415,407
REFUGEE CASH ASSISTANCE	75,918	75,918	-	91,197	81,197	10,000
CASH ASSISTANCE FOR IMMIGRANTS	1,924,374	1,924,374	-	2,121,954	2,121,954	-
CALWORKS - ALL OTHER FAMILIES	248,426,880	242,216,208	6,210,672	255,137,220	249,744,925	5,392,295
KINSHIP GUARDIANSHIP ASSISTANCE PROGRAM	7,935,732	7,018,722	917,010	8,741,496	7,700,659	1,040,837
SERIOUSLY EMOTIONALLY DISTURBED	-	-	-	-	-	-
CALWORKS - 2 PARENT FAMILIES	39,526,722	38,538,554	988,168	43,900,248	42,877,681	1,022,567
AID TO INDIGENTS (GENERAL RELIEF)	1,711,197	505,000	1,206,197	1,476,197	370,000	1,106,197
VETERANS AFFAIRS	2,159,665	718,427	1,441,238	1,985,233	550,853	1,434,380
<b>HUMAN SERVICES SUBTOTAL:</b>	<b>1,463,359,632</b>	<b>1,389,770,138</b>	<b>73,589,494</b>	<b>1,471,755,463</b>	<b>1,400,271,824</b>	<b>71,483,639</b>
COUNTY TRIAL COURTS - DRUG COURT PROGRAMS	381,101	381,101	-	46,971	46,971	-
COUNTY TRIAL COURTS - GRAND JURY	416,022	-	416,022	429,069	-	429,069
COUNTY TRIAL COURTS - INDIGENT DEFENSE PROGRAM	9,805,546	90,000	9,715,546	10,046,137	32,000	10,014,137
COUNTY TRIAL COURTS - COURT FACILITIES/JUDICIAL BENEFITS	1,216,657	-	1,216,657	1,211,889	-	1,211,889
COUNTY TRIAL COURTS - COURT FACILITIES PAYMENTS	2,536,349	-	2,536,349	2,536,349	-	2,536,349
COUNTY TRIAL COURTS - FUNDING OF MAINTENANCE OF EFFORT	25,510,051	14,182,000	11,328,051	25,509,703	14,182,000	11,327,703
DISTRICT ATTORNEY - CRIMINAL PROSECUTION	65,192,137	33,700,436	31,491,701	65,839,206	34,878,602	30,960,604
LAW & JUSTICE GROUP ADMINISTRATION	110,577	110,162	415	90,208	90,208	-
PROBATION - ADMINISTRATION, CORRECTIONS AND DETENTION	150,700,320	83,673,881	67,026,439	143,295,001	70,214,776	73,080,225
PROBATION - JUVENILE JUSTICE GRANT PROGRAM	129,914	-	129,914	-	-	-
PUBLIC DEFENDER	35,462,476	4,645,553	30,816,923	35,524,591	3,645,749	31,878,842
SHERIFF/CORONER/PUBLIC ADMINISTRATOR	215,113,178	153,050,437	62,062,741	204,564,900	153,943,591	50,621,309
SHERIFF - DETENTIONS	168,889,535	57,391,893	111,497,642	179,208,808	42,301,233	136,907,575
SHERIFF - CONTRACTS	131,049,358	124,029,871	7,019,487	128,348,991	128,348,991	-
<b>LAW AND JUSTICE SUBTOTAL:</b>	<b>806,513,221</b>	<b>471,255,334</b>	<b>335,257,887</b>	<b>796,651,823</b>	<b>447,684,121</b>	<b>348,967,702</b>
AGRICULTURE/WEIGHTS AND MEASURES	6,852,101	5,437,850	1,414,251	6,823,815	5,533,750	1,290,065
AIRPORTS	2,934,893	2,934,893	-	2,810,030	2,810,030	-
ARCHITECTURE AND ENGINEERING	14,165	-	14,165	-	-	-
COUNTY MUSEUM	3,138,460	975,006	2,163,454	3,191,462	457,050	2,734,412
LAND USE SERVICES - ADMINISTRATION	1,182,772	-	1,182,772	467,142	-	467,142
LAND USE SERVICES - PLANNING	9,082,680	3,929,617	5,153,063	7,962,234	3,687,107	4,275,127
LAND USE SERVICES - LAND DEVELOPMENT	858,360	225,000	633,360	1,151,667	548,398	603,269
LAND USE SERVICES - BUILDING AND SAFETY	4,294,958	3,707,750	587,208	5,055,324	4,561,075	494,249
LAND USE SERVICES - CODE ENFORCEMENT	5,540,668	643,756	4,896,912	5,430,663	858,000	4,572,663
LAND USE SERVICES - FIRE HAZARD ABATEMENT	2,511,080	2,251,250	259,830	2,542,266	2,303,869	238,397
PUBLIC WORKS-SURVEYOR	3,674,273	3,092,168	582,105	3,405,098	2,840,652	564,446
REAL ESTATE SERVICES (RES)	1,174,498	1,166,965	7,533	1,164,639	1,164,639	-
RES - FACILITIES MANAGEMENT	13,685,548	12,891,045	794,503	14,249,231	13,636,172	613,059
RES - UTILITIES	19,626,782	277,495	19,349,287	20,372,124	283,329	20,088,795
RES - RENTS AND LEASES	2,409,082	2,409,082	-	1,008,033	1,008,033	-
RES - COURTS PROPERTY MANAGEMENT	2,285,336	2,285,336	-	2,292,520	2,292,520	-
REGIONAL PARKS	10,461,140	7,863,567	2,597,573	11,044,706	7,856,571	3,188,135
REGISTRAR OF VOTERS	9,387,721	2,498,240	6,889,481	8,482,909	1,869,240	6,613,669
<b>OPERATIONS AND COMMUNITY SERVICES SUBTOTAL:</b>	<b>99,114,517</b>	<b>52,589,020</b>	<b>46,525,497</b>	<b>97,453,863</b>	<b>51,710,435</b>	<b>45,743,428</b>
<b>GENERAL FUND DEPARTMENT SUBTOTAL:</b>	<b>2,506,883,022</b>	<b>1,969,983,554</b>	<b>536,899,468</b>	<b>2,489,727,318</b>	<b>1,942,753,040</b>	<b>546,974,278</b>
CONTINGENCIES	145,291,869	-	145,291,869	8,923,944	-	8,923,944
RESERVE CONTRIBUTIONS	12,668,192	-	12,668,192	45,325,081	-	45,325,081
BOARD DISCRETIONARY FUND	5,852,564	-	5,852,564	4,641,309	-	4,641,309
NON DEPARTMENTAL APPROPRIATION	11,295,758	11,295,758	-	7,500,000	7,500,000	-
OPERATING TRANSFERS OUT	96,283,608	-	96,283,608	61,194,294	-	61,194,294
<b>TOTAL COUNTYWIDE ALLOCATED COSTS:</b>	<b>271,391,991</b>	<b>11,295,758</b>	<b>260,096,233</b>	<b>127,584,628</b>	<b>7,500,000</b>	<b>120,084,628</b>
<b>GRAND TOTAL:</b>	<b>2,778,275,013</b>	<b>1,981,279,312</b>	<b>796,995,701</b>	<b>2,617,311,946</b>	<b>1,950,253,040</b>	<b>667,058,906</b>



**NON-DEPARTMENTAL BUDGET UNIT**

The non-departmental budget unit includes discretionary revenue of the general fund that is detailed in the table titled 'Countywide Discretionary Revenue Which Pay for Net County Cost' found earlier in this section of the budget book.

**APPROPRIATION**

	<b>2013-14 Adopted Budget</b>	<b>2013-14 Modified Budget</b>	<b>2013-14 Estimate</b>	<b>2014-15 Adopted Budget</b>
Services & Supplies	1,000,000	1,000,000	543,555	1,000,000
Other Charges	6,500,000	10,295,758	2,297,697	6,500,000
<b>Total Expenditure Authority</b>	<b>7,500,000</b>	<b>11,295,758</b>	<b>2,841,252</b>	<b>7,500,000</b>

Non departmental appropriation pays for countywide expenditures not allocable to a specific department, and interest expense on the County's annual Tax and Revenue Anticipation Notes. The net interest earnings revenue reported in the table titled 'Countywide Discretionary Revenue Which Pay for Net County Cost' is reduced by these expenditures.

In 2013-14, a mid-year increase of \$3.8 million was appropriated to pay the one-time cost of the Property Tax Administration Fee (PTAF) litigation. This litigation was initiated by forty-three cities who sued Los Angeles County over the portion of PTAF fees calculated on the State revenue exchanges known as the Triple Flip and Vehicle License Fee (VLF)/Property Tax Swap. All California counties had included the Triple Flip and VLF/Property Tax Swap in the base for the calculation of the cities' share of this fee. The Court recently ruled in favor of the cities.

In addition to expenditures, this budget unit also includes operating transfers out which are transfers of cash to fund programs accounted for outside of the General Fund.



**OPERATING TRANSFERS OUT**

	<b>2013-14 Adopted Budget</b>	<b>2013-14 Final Budget</b>	<b>2013-14 Estimate</b>	<b>2014-15 Recommended Budget</b>
<b><u>Operating Transfers Out</u></b>				
<b>One-Time</b>				
Capital Improvement Fund - Relocate Sheriff's Aviation Division	4,500,000	4,500,000	4,500,000	
Capital Improvement Fund - Expansion of Sheriff's Crime Lab	15,700,000	15,700,000	15,700,000	
Capital Improvement Fund - Purchase of Building in Victorville	4,500,000	4,500,000	4,500,000	
Capital Improvement Fund - Sheriff's Resident Post Improvements	150,000	150,000	150,000	
Transfer to ICEMA - Loss of Court Fine Revenue	110,000	110,000	110,000	
CDH Oversight Board	824,276	824,276	824,276	-
Transfer to Public Works - Transportation Projects	4,533,629	4,700,429	4,700,429	5,580,320
Capital Improvement Fund - Adelanto Detention Center		4,811,750	4,811,750	
Capital Improvement Fund - Land Purchase		2,200,000	2,200,000	
Capital Improvement Fund - Sheriff's Control Center Upgrades		5,000,000	5,000,000	
Capital Improvement Fund - Land Use Services Remodel		1,566,000	1,566,000	
Capital Improvement Fund - Fleet Management/Public Works Pavement Rehab				1,398,564
Lucerne Valley CSA Park Improvements				70,000
Joshua Tree Sidewalks and Signage				75,000
Court Reorganization		200,000	200,000	
Home Ownership Protection Program				200,000
<b>Ongoing</b>				
Capital Improvement Fund - Annual Allocation	12,000,000	12,000,000	12,000,000	12,000,000
Aging and Adult Services	1,057,620	1,057,620	1,057,620	1,057,620
800 MHz Project	20,000,000	20,000,000	20,000,000	20,000,000
Special Districts - Water/Wastewater System for Regional Parks	1,000,000	1,000,000	1,000,000	1,000,000
General Fund Subsidy to County Fire Protection District				
Office of Emergency Services	1,257,695	1,257,695	1,257,695	1,601,228
North Desert Zone	6,125,129	6,125,129	6,125,129	6,772,984
South Desert Zone	3,746,648	3,746,648	3,746,648	3,228,163
Valley Zone	3,348,952	3,348,952	3,348,952	3,432,722
Mountain Zone	621,518	621,518	621,518	45,281
Equipment Purchases	3,500,000	3,500,000	3,500,000	2,719,564
Emergency Fuel	162,848	162,848	162,848	162,848
Court Settlement POB Payment				300,000
County Successor Agency to fund Sales Tax Sharing Agreement	250,000	250,000	250,000	250,000
Flood Control District Stormwater Permit	1,300,000	1,300,000	1,300,000	1,300,000
<b>Total Operating Transfers Out</b>	<b>84,688,315</b>	<b>98,632,865</b>	<b>98,632,865</b>	<b>61,194,294</b>



**CONTINGENCIES**

The County Contingencies includes the following elements:

**Contingencies**Mandatory Contingencies

Board Policy requires the County to maintain an appropriated contingency fund to accommodate unanticipated operational changes, legislative impacts or other economic events affecting the County's operations, which could not have reasonably been anticipated at the time the budget was prepared. Funding is targeted at 1.5% of locally funded appropriation.

Uncertainties Contingencies

Any unallocated funding available from current year sources (both ongoing and one-time) that has not been set-aside or contributed to reserves is budgeted in the contingencies for uncertainties.

**Ongoing Set-Aside Contingencies**

The County budget process differentiates between ongoing and one-time revenue sources. Ongoing set-asides represent ongoing sources of funding that have been targeted for future ongoing program needs. There are no ongoing set-aside contingencies in 2013-14 and 2014-15.

	<b>2013-14 Adopted Budget</b>	<b>2013-14 Approved Contributions/ (Uses)</b>	<b>2014-15 Recommended Contributions / (Uses)</b>	<b>2014-15 Recommended Budget</b>
<b>Contingencies</b>				
Mandatory Contingencies (1.5% of Locally Funded Appropriation)	8,491,998		431,946	8,923,944
Uncertainties Contingencies	180,870,374	(167,058,482)	(13,811,892)	-
<b>Total Contingencies</b>	<b>189,362,372</b>	<b>(167,058,482)</b>	<b>(13,379,946)</b>	<b>8,923,944</b>

2013-14 Changes to Uncertainties Contingencies

In 2013-14, quarterly budget reports and other mid-year adjustments resulted in adjustments to Uncertainties Contingencies of \$167,058,482.

- \$26,355,715 decrease due to \$63,105,330 in revenue increases offset by \$89,461,045 in appropriation increases. This reflects budget adjustments for the first quarter of 2013-14.
- \$920,661 decrease due to \$13,213,880 in revenue increases offset by \$14,135,541 in appropriation increases. This reflects budget adjustments for the second quarter of 2013-14.
- \$16,794,127 decrease allocated to departments to address the impacts of the Worker's Compensation rebate, which included increased rates to program participants and other impacts to the General Fund.
- \$122,987,979 decrease due to \$37,663,154 in revenue increases offset by \$40,062,411 in appropriation increases and \$120,588,722 in contributions to general fund reserves. This reflects budget adjustments for the third quarter of 2013-14.

2014-15 Mandatory Contingencies

The base allocation to the mandatory contingencies is \$8,923,944, the amount required pursuant to Board policy, based on projected locally funded appropriation of \$594.9 million.



2014-15 Uncertainties Contingencies

All available General Fund sources are appropriated in the Recommended Budget or contributed to General Fund Reserves. As a result there is no amount appropriated in the Uncertainties Contingencies in the 2014-15 Recommended Budget.

**RESERVES**

The County has a number of reserves that have been established over the years. Some are for specific purposes, such as to meet future known obligations or to build a reserve for capital projects. The general purpose reserve are funds held to protect the County from unforeseen increases in expenditures or reductions in revenues, or other extraordinary events, which would harm the fiscal health of the County. On January 6, 1998, the Board of Supervisors adopted a County policy to provide guidelines and goals for reserve levels. The current policy calls for the County General Purpose Reserve target to be 20% of locally funded appropriation. The Board of Supervisors also established specific purpose reserves to set aside funds to meet future needs.

Total Reserves					
	6/30/13 Ending Balance	Approved 2013-14		6/30/14 Ending Balance	6/30/15 Estimated Balance
		Contributions	Uses		
<b>General Purpose Reserve</b>	<b>70,830,305</b>	11,610,597		<b>82,440,902</b>	<b>82,440,902</b>
<b>Specific Purpose Reserves</b>					
Future Space Needs	22,878,705		(22,878,705)	-	-
Medical Center Debt Service	32,074,905			32,074,905	32,074,905
Retirement	8,500,000			8,500,000	8,500,000
Teeter	24,709,925		(13,040,084)	11,669,841	11,669,841
Insurance	3,000,000			3,000,000	3,000,000
Restitution	1,545,025			1,545,025	1,545,025
Earned Leave	3,596,277	7,006,860		10,603,137	14,106,567
Computer Systems:					
New Property Tax System	20,000,000			20,000,000	20,000,000
New Financial Accounting System	-	13,000,000		13,000,000	13,000,000
Permit Systems Upgrade	-	2,000,000		2,000,000	2,000,000
Capital Projects					
Rancho Court Remodel - District Attorney	-			-	1,570,000
Public Defender - Victorville/Rancho Court Remodel	-			-	600,000
Sheriff Building	-			-	5,000,000
Animal Shelter	-	10,000,000		10,000,000	10,000,000
County Buildings and Acquisition Retrofit Project	-	4,000,000		4,000,000	4,000,000
303 Building Upgrades	-	4,000,000		4,000,000	4,000,000
Lake Gregory Dam	-			-	5,000,000
Rim Forest Drainage	-	5,900,000		5,900,000	5,900,000
Transportation Projects					
Glen Helen Parkway Bridge Replacement/Widening Construction	-			-	1,844,651
Rock Springs Bridge Replacement /Widening Construction	-			-	2,107,000
National Trails Highway	-			-	5,000,000
Glen Helen Grade Separation	-	5,328,000		5,328,000	(5,328,000)
Jail Upgrades					
Glen Helen Rehabilitation Center 512 Bed Step Housing Program	-	22,500,000		22,500,000	22,500,000
Adelanto Detention Center	-	9,969,361		9,969,361	9,969,361
West Valley Detention Center ADA Improvements	-	7,000,000		7,000,000	7,000,000
Labor	-			-	15,100,000
Land Use Services General Plan/Development Code Amendments	-	5,400,000		5,400,000	(308,537)
Asset Replacement					5,600,000
Cal Fresh Waiver Discontinuance	-	5,000,000		5,000,000	5,000,000
Redevelopment Agency Overpayment	-	3,800,000		3,800,000	3,800,000
Worker's Compensation Rebate	-	16,742,096		16,742,096	16,742,096
<b>Total Specific Purpose</b>	<b>116,304,837</b>			<b>202,032,365</b>	<b>241,720,909</b>
<b>Total Reserves</b>	<b>187,135,142</b>			<b>284,473,267</b>	<b>324,161,811</b>



2013-14 Contributions

The Fund Balance and Reserve Policy calls for a General Purpose Reserve targeted at 20% of locally funded appropriation, up from the previous target of 10%. For 2013-14 the general purpose reserve is increased by \$11.6 million which includes an early contribution for 2014-15. This brings the balance in the General Purpose Reserve to 13.9% of locally funded appropriation. The Fund Balance and Reserve Policy calls for continued annual contributions of one-time sources to this reserve until the 20% target is achieved. The following were additional contributions made in 2013-14:

- \$101.8 million in contributions from contingency set-asides as part of the Third Quarter Budget Report
- \$7.0 million for the earned leave reserve,
- \$4.0 million for the 303 Building Renovations Capital Project,
- \$5.0 million for the Cal Fresh Waiver Discontinuance, and
- \$3.8 million for overpayment relating to the dissolution of the Redevelopment Agencies.

2013-14 Approved Uses

- \$22.9 million use of the full amount of the Future Space Needs reserve, and
- \$13.0 million use of the Teeter Reserve, which is the amount that this reserve is funded in excess of the legal requirement.

2014-15 Recommended Contributions and Uses

For 2014-15, the adopted budget includes:

- \$45.3 million of new contributions to reserves including:
  - \$5.6 million to the asset replacement reserve,
  - \$15.1 million to a labor reserve,
  - \$3.5 million to the earned leave reserve,
  - \$5.0 million to the Lake Gregory Dam capital project,
  - \$8.9 million for Transportation projects, and
  - \$7.2 million for various capital improvement projects.
- The use of \$0.3 million of the reserve for Land Use Services General Plan/Development Code Amendments; and
- The use of \$5.3 million of the reserve for Glen Helen Grade Separation to fund the Glen Helen Grade Separation project and various other transportation projects.

The chart on the following page shows recent history of the County Reserve levels:



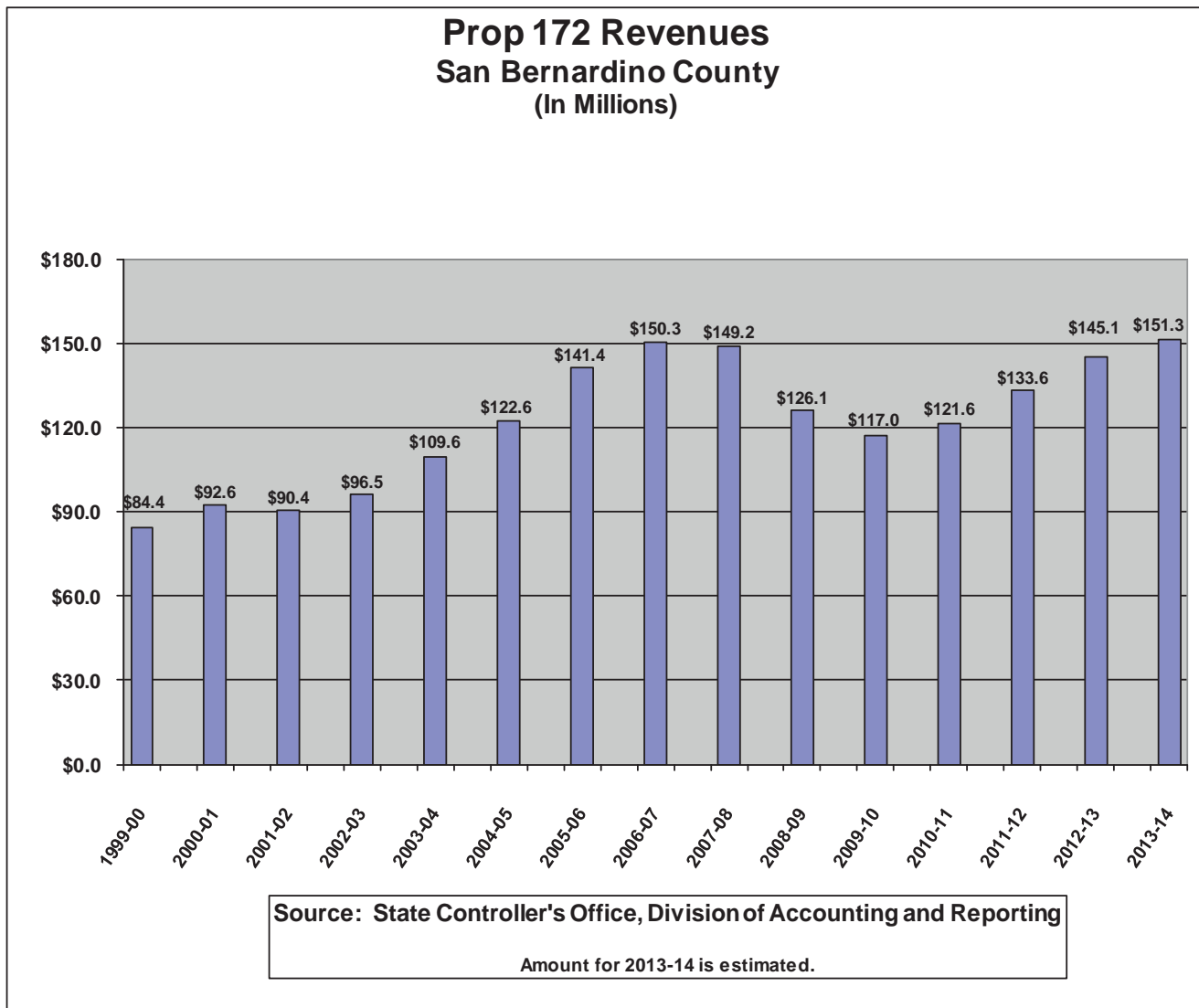
	Year End Actual Balances				Estimated	Recommended
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
<b>General Purpose</b>	<b>\$ 59.7</b>	<b>\$ 59.7</b>	<b>\$ 65.2</b>	<b>\$ 70.8</b>	<b>\$ 82.4</b>	<b>\$ 82.4</b>
<b>Specific Purpose</b>						
Future Space Needs	55.5	22.9	22.9	22.9	-	-
Medical Center Debt Service	32.1	32.1	32.1	32.1	32.1	32.1
Retirement	46.5	8.5	8.5	8.5	8.5	8.5
Teeter	24.7	24.7	24.7	24.7	11.7	11.7
Insurance	3.0	3.0	3.0	3.0	3.0	3.0
Restitution	1.5	1.5	1.5	1.5	1.5	1.5
Earned Leave	-	-	3.6	3.6	10.6	14.1
Fire Facilities	2.0	3.0	4.0	-	-	-
Property Tax Admin Fee Litigation	-	-	14.2	-	-	-
Business Process Improvements	1.3	1.2	-	-	-	-
Justice Facilities	0.1	-	-	-	-	-
Computer Systems:						
Property Tax System	-	-	9.0	20.0	20.0	20.0
New Financial Accounting System	-	-	-	-	13.0	13.0
Permit Systems Upgrade	-	-	-	-	2.0	2.0
Capital Projects:	4.0	4.0				
Rancho Court Remodel - District Attorney	-	-	-	-	-	1.6
Public Defender - Victorville and Rancho Court Remodel	-	-	-	-	-	0.6
Sheriff Building	-	-	-	-	-	5.0
Animal Shelter	-	-	-	-	10.0	10.0
County Buildings and Acquisition Retrofit Project	-	-	-	-	4.0	4.0
303 Building Renovations	-	-	-	-	4.0	4.0
Lake Gregory Dam	-	-	-	-	-	5.0
Rim Forest Drainage	-	-	-	-	5.9	5.9
Transportation Projects:						
Glen Helen Pkwy Bridge Replacement/Widening	-	-	-	-	-	1.8
Rock Springs Bridge Replacement/Widening	-	-	-	-	-	2.1
National Trails Highway	-	-	-	-	-	5.0
Glen Helen Grade Separation	-	-	-	-	5.3	-
Jail Upgrades:						
Glen Helen Rehabilitation 512 Bed Step Housing	-	-	-	-	22.5	22.5
Adelanto Detention Center	-	-	-	-	10.0	10.0
West Valley Detention Center ADA Improvements	-	-	-	-	7.0	7.0
Asset Replacement	-	-	-	-	-	5.6
Labor	-	-	-	-	-	15.1
Workers Compensation Rebate	-	-	-	-	16.7	16.7
Land Use Services Code Amendments	-	-	-	-	5.4	5.1
Cal Fresh Waiver Discontinuance	-	-	-	-	5.0	5.0
Redevelopment Agency Overpayment	-	-	-	-	3.8	3.8
<b>Subtotal - Specific Purpose (1)</b>	<b>170.7</b>	<b>100.9</b>	<b>123.5</b>	<b>116.3</b>	<b>202.0</b>	<b>241.7</b>
<b>Total Reserves (1)</b>	<b>\$ 230.4</b>	<b>\$ 160.7</b>	<b>\$ 188.7</b>	<b>\$ 187.1</b>	<b>\$ 284.4</b>	<b>\$ 324.1</b>



**PROPOSITION 172**

Proposition 172 (Prop 172), which became effective January 1, 1994, placed a one-half percent sales tax rate in the State's Constitution and required that revenue from the additional one-half percent sales tax be used only for local public safety activities, which include but are not limited to sheriff, police, fire protection, county district attorney, and county corrections. Funding from Prop 172 enabled counties and cities to substantially offset the public safety impacts of property tax losses resulting from the State property tax shift to the Educational Revenue Augmentation Fund (ERAF).

The one-half percent sales tax imposed by Prop 172 is collected by the state and apportioned to each county based on its proportionate share of statewide taxable sales. In accordance with Government Code 30055, of the total Prop 172 revenue allocated to San Bernardino County, 5% is distributed to cities affected by the property tax shift and 95% remains within the County. The following chart reflects the annual amount of Prop 172 revenues received by San Bernardino County, excluding the cities' distributions, for the past 15 years.



On August 22, 1995, the County Board of Supervisors approved the recommendation that defined the following departments as the public safety services designated to receive the County's 95% share of Prop 172 revenue, consistent with Government Code Section 30052, and authorized the Auditor-Controller/Treasurer/Tax Collector to deposit the County's portion of the Prop 172 revenue as follows:

➤ Sheriff/Coroner/Public Administrator	70.0%
➤ District Attorney	17.5%
➤ Probation	12.5%

Prop 172 revenue currently represents a significant funding source for the Sheriff/Coroner/Public Administrator, District Attorney, and Probation departments. Each year, as part of the budget development process, Prop 172 projections are developed based on staff analysis of revenue trends and forecasts provided by an outside economist.

On February 13, 2007, the Board of Supervisors approved a policy which requires the County to maintain an appropriation for contingency for Prop 172 funds targeted at no less than 10% of the current year's budgeted Prop 172 revenues. This 10% contingency was created to ensure funding for these public safety departments should the County experience Prop 172 revenue shortfalls in the future. These contingencies are maintained for each respective department within the Prop 172 restricted general fund.

The chart below illustrates the beginning and ending estimated fund balances of the Prop 172 restricted general fund, budgeted revenue and departmental usage for 2014-15, the required 10% contingency target, and the amount above that target.

	<b>Estimated Beginning Fund Balance</b>	<b>2014-15 Budgeted Revenue</b>	<b>2014-15 Budgeted Usage</b>	<b>Estimated Ending Fund Balance</b>	<b>10% Contingency</b>	<b>Amount Above Required Contingency</b>
<b>Sheriff/Coroner</b>	13,984,058	109,257,000	(109,200,000)	14,041,058	10,925,700	3,115,358
<b>District Attorney</b>	3,737,604	27,315,000	(27,300,000)	3,752,604	2,731,500	1,021,104
<b>Probation</b>	5,535,699	19,528,000	(19,500,000)	5,563,699	1,952,800	3,610,899
<b>Total</b>	<b>23,257,361</b>	<b>156,100,000</b>	<b>(156,000,000)</b>	<b>23,357,361</b>	<b>15,610,000</b>	<b>7,747,361</b>



## **1991 REALIGNMENT**

In 1991, the State shifted responsibility for a number of mental health, social services, and health programs to counties. This shift, known as 1991 Realignment, resulted in the creation of two dedicated funding streams to pay for the shifted services: a ½ cent Sales Tax and 24.33% of Vehicle License Fee (VLF) revenues made available by a change in the depreciation schedule for vehicles. Pursuant to SB 1096, Chapter 21, Statutes of 2004, the Vehicle License Fee was reduced from 2.0% of the market value of a vehicle to 0.65% of the market value. SB 1096 also changed the percentage of the VLF revenue allocated to Realignment from 24.33% to 74.9%. This change did not result in increased VLF revenues to 1991 Realignment, but simply reflects the same funding amount expressed as a percentage of the reduced revenue collected. Each of the three service areas identified was required to have their own separate accounts established and each of those service areas receive a different share of statewide 1991 Realignment revenue.

Within the mental health area, the programs the County is now responsible for are: community-based mental health programs, State Hospital services for County patients, and Institutions for Mental Disease. Within the social services area, the programs the County is now responsible for are: the County revenue stabilization program and the County justice subvention program. Within the health area, the programs the County is now responsible for are: AB8 County health services, local health services, medically indigent services, and the County medical services program.

In addition to these program responsibility shifts, a number of programs had changes made to their cost sharing ratios. For example, prior to 1991 Realignment, Foster Care costs were funded by 95% State resources and 5% County resources. Now Foster Care is funded by 40% State resources and 60% County resources, which is a significant impact to the County.

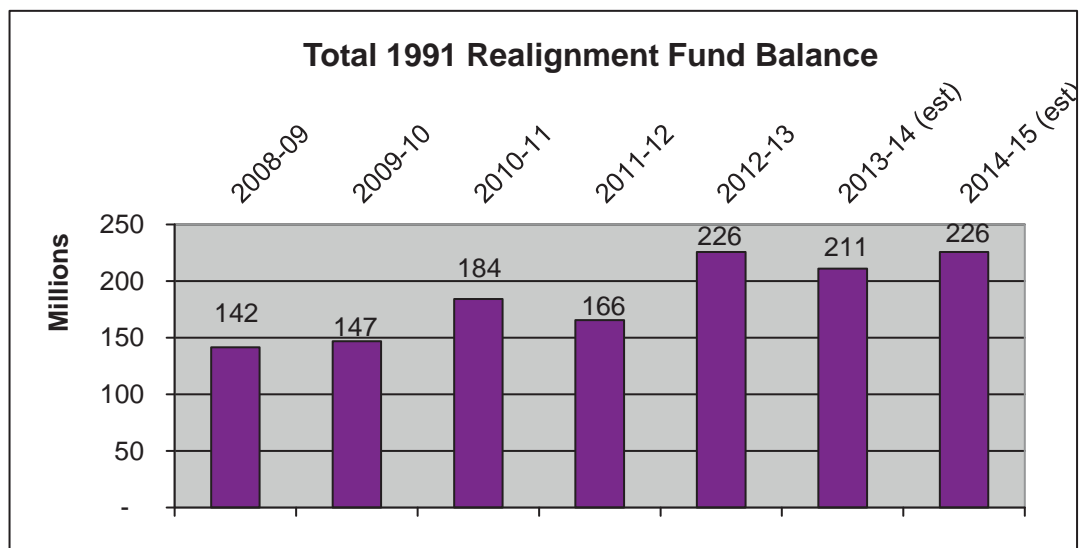
The 1991 Realignment program has some flaws in its design that adversely impact San Bernardino County revenues. First, San Bernardino County is an “under-equity county,” meaning that the County receives a lesser share of revenue relative to other counties based on population and estimated poverty population. Revenue distributions among counties were determined by expenditures in the programs that were transferred just prior to the adoption of Realignment. San Bernardino County was under-equity in those programs. 1991 Realignment did attempt to address the inequity issue, but the effort fell short. The County continues to be under-equity at this time and barring any legislative action the amount of inequity will increase over time. As growth occurs in the revenue streams, incremental new funding is distributed on existing sharing arrangements between the counties. The counties that are already over-equity get a higher percentage of the new revenue while those that are under-equity get less.

In addition to the under-equity issue, the demand for services the County is providing and the revenue streams funding them are both sensitive to the economy. When the economy does poorly, demand for services is high, but revenues under perform. When the economy is doing well, demand for services is reduced, sales tax and vehicle license fee revenues are high, and growth in these funding streams is experienced. Social Services has priority claim on any sales tax growth received. If the growth is sufficient to cover the increasing Social Services caseload costs, then anything remaining is distributed to the 1991 Mental Health and 1991 Health Realignment funds.

**Budgetary Note:** Financial information presented in the 1991 and 2011 Realignment budget sections is consistent with state reporting requirements for the 1991 Realignment funds. The State’s reporting requirements are not consistent with the County’s implementation of GASB 34, as it relates to revenue accrual. As such, within the County financial accounting system, an adjustment will be made to show the correct revenues in accordance with the County accrual procedures. This is a revenue timing issue only as a result of delays by the State in distributing sales tax growth revenue.



The graph below shows the history of fund balance for all 1991 Realignment funds.



During 2009-10, revenue shortfalls in sales tax and vehicle license fee revenues, offset by even greater departmental savings, resulted in a slight increase in fund balance of \$5 million for the period ending June 30, 2010.

During 2010-11, sales tax increased while VLF declined. Those factors would have normally caused a decline in fund balance given departmental needs. However, the 1991 Health Realignment fund experienced a one-time savings due to state legislation regarding hospital fees. The net effect was an increase to overall fund balance of \$37 million.

Revenues for 2011-12 came in much stronger than anticipated. State-wide, sales tax and VLF increased; however, revenue levels still hadn't reached pre-recession peaks. At the same time the demands for County services continued to increase as economic recovery and job creation remained sluggish. As a result, departmental usage of realignment funds outpaced revenues by \$18 million.

In 2012-13, sales tax and VLF revenues continued to come in strong. Even more encouraging was that both revenue sources saw growth funding paid in 2013-14. Program costs also increased but not as quickly, and fund balance would have increased by approximately \$23 million. However, the annual transfer of funds to ARMC was not needed and as a result fund balance spiked by an additional \$37 million.

For 2013-14, estimated revenues are coming in strong; however, the County is not experiencing a corresponding decrease in demand for services and usage has outpaced revenues. Current projections estimate that 1991 Realignment fund balances will be drawn down by approximately \$15 million in 2013-14.

For 2014-15, some growth is expected in each of the funds, but has not been included in the recommended budget at this time due to the uncertainty in the amount and the timing of the actual receipt of the funds in the subsequent budget cycle. Based on current estimates, fund balance is projected to grow by \$15 million in 2014-15.



<b>BUDGET HISTORY FOR ALL 1991 REALIGNMENT BUDGET PAGES</b>
---

	ACTUAL 2012-13	MODIFIED 2013-14	ESTIMATED 2013-14	RECOMMENDED 2014-15
Beginning Fund Balance	175,512,257	225,662,253	225,662,253	211,171,203
Revenue	202,533,009	194,589,200	210,509,641	209,884,028
Departmental Usage	152,383,012	200,998,805	225,000,691	195,160,322
Ending Fund Balance	225,662,253	219,252,648	211,171,203	225,894,909
Change in Fund Balance	50,149,996	(6,409,605)	(14,491,050)	14,723,706

The 2013-14 modified budget does not reflect third quarter budget adjustments, which include an adjustment for a use of fund balance in the Health fund. For 2014-15, departmental usage of \$195.2 million is less than the revenue projection of \$209.9 million, resulting in a projected net increase of \$14.7 million in total fund balance. This is primarily due to the recommended revenue budget not reflecting the potential redirection of Health Realignment funds as a result of AB 85 legislation. This legislation requires a redirection of a portion of realignment revenues to offset state costs for CalWORKS since counties will receive more federal funding through Medi-Cal expansion. Expenditure levels continue to be monitored closely, with specific measures being developed to align departmental usage to ongoing revenue and maintain a sufficient fund balance amount for those years where this balanced budget is not possible.

<b>SUMMARY OF 1991 REALIGNMENT BUDGET UNITS FOR 2014-15</b>
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	Mental Health	Social Services	Health	Total
Estimated Beginning Fund Balance	50,625,549	88,354,191	72,191,463	211,171,203
Budgeted Revenue	56,470,492	100,745,583	52,667,952	209,884,028
Budgeted Departmental Usage	55,912,959	100,584,547	38,662,816	195,160,322
Budgeted 10% Transfers	-	-	-	-
Estimated Ending Fund Balance	51,183,083	88,515,227	86,196,599	225,894,909
Estimated Change in Fund Balance	557,533	161,036	14,005,136	14,723,706
<hr/>				
Estimated Ending Fund Balance	51,183,083	88,515,227	86,196,599	225,894,909
10% Contingency Target	5,647,049	10,074,558	5,266,795	20,988,403
Available Ending Fund Balance	45,536,033	78,440,669	80,929,804	204,906,506

The 1991 Realignment budget units do not directly spend funds or provide service. They are strictly funding budget units with the actual expenditures occurring within the operating budget units of the departments that receive Realignment revenue.

The 1991 Realignment legislation does allow for some flexibility in usage of funds at the County level. Upon action by the Board of Supervisors, a County can transfer 10% of a given year's revenue from one fund to another. San Bernardino County has used the provision over the years to help support either the health or social services programs. The County did not do a 10% transfer in the prior four fiscal years and is not budgeting one for 2014-15. However, in the event that such transfer is needed, Board of Supervisors approval is required.

The breakdown of the fund balance calculations and departmental usage for each of the three individual 1991 Realignment funds are on the following pages.



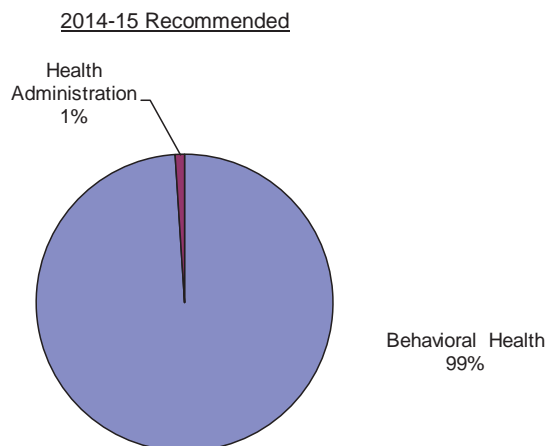
<b>Mental Health</b>
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	<b>ACTUAL 2012-13</b>	<b>MODIFIED 2013-14</b>	<b>ESTIMATED 2013-14</b>	<b>RECOMMENDED 2014-15</b>
Beginning Fund Balance	34,689,931	46,623,937	46,623,937	50,625,549
Revenue	52,586,991	46,683,964	56,280,019	56,470,492
Departmental Usage	40,652,985	51,031,711	52,278,407	55,912,959
10% Transfers	-	-	-	-
Ending Fund Balance	46,623,937	42,276,190	50,625,549	51,183,083
Change in Fund Balance	11,934,007	(4,347,747)	4,001,612	557,533

For 2014-15, the Mental Health fund balance is budgeted to increase slightly. While sales tax is projected to increase statewide, the allocation provided to the 1991 Mental Health Realignment account is a fixed amount. A strong year in 2010-11 saw a substantial increase in fund balance that should allow the fund to weather the unpredictability of revenue sources over the next few years. Some growth is expected in 2014-15, but has not been included in the recommended budget at this time due to the uncertainty of the amount and the timing of the actual receipt of the funds in the subsequent budget cycle.

<b>Breakdown of Departmental Usage of Mental Health 1991 Realignment</b>
--

	<b>ACTUAL 2012-13</b>	<b>MODIFIED 2013-14</b>	<b>ESTIMATED 2013-14</b>	<b>RECOMMENDED 2014-15</b>
Behavioral Health	40,416,669	50,444,878	51,786,242	55,342,753
Health Administration	236,316	586,833	492,165	570,206
Total Departmental Usage	40,652,985	51,031,711	52,278,407	55,912,959



<b>Social Services</b>
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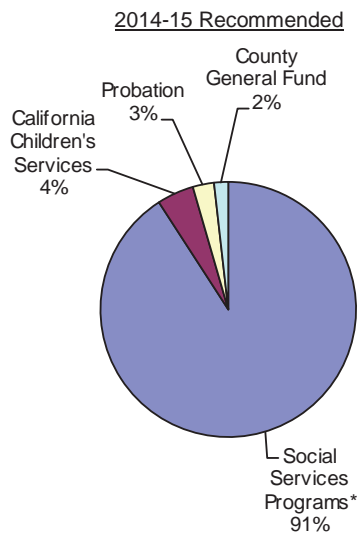
	ACTUAL 2012-13	MODIFIED 2013-14	ESTIMATED 2013-14	RECOMMENDED 2014-15
Beginning Fund Balance	65,883,741	68,986,856	68,986,856	88,354,191
Revenue	97,357,292	96,591,257	108,505,503	100,745,583
Departmental Usage	94,254,178	99,085,635	89,138,168	100,584,547
10% Transfers	-	-	-	-
Ending Fund Balance	68,986,856	66,492,478	88,354,191	88,515,227
Change in Fund Balance	3,103,115	(2,494,378)	19,367,335	161,036

Social Services realignment revenue is composed primarily of sales tax. The split is currently 97% sales tax and 3% vehicle license fees. Some growth is expected in 2014-15, but has not been included in the recommended budget at this time due to the uncertainty of the amount and the timing of the actual receipt of the funds in the subsequent budget cycle. Social Services has priority claim on any sales tax growth received. For 2014-15, budgeted expense and ongoing revenue are expected to result in a slight increase in fund balance. Department usage will continue to be monitored closely to ensure that fund balance is maintained at adequate levels.

<b>Breakdown of Departmental Usage of Social Services 1991 Realignment</b>
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	ACTUAL 2012-13	MODIFIED 2013-14	ESTIMATED 2013-14	RECOMMENDED 2014-15
Social Services Programs*	86,932,689	89,912,162	81,884,076	91,398,771
California Children's Services	2,821,859	4,673,843	2,754,462	4,686,146
Probation	2,700,630	2,700,630	2,700,630	2,700,630
County General Fund	1,799,000	1,799,000	1,799,000	1,799,000
Total Departmental Usage	94,254,178	99,085,635	89,138,168	100,584,547

\* Soc. Svcs. Programs include: Foster Care (AAB BHI), Administrative Claim Matches (AAA DPA), Aid to Adoptive Children (AAB ATC) and Health Administration Support (AAA HCC).



<b>Health</b>
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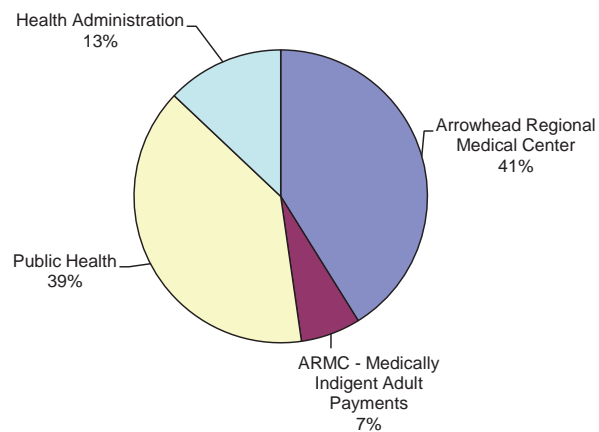
	<b>ACTUAL 2012-13</b>	<b>MODIFIED 2013-14</b>	<b>ESTIMATED 2013-14</b>	<b>RECOMMENDED 2014-15</b>
Beginning Fund Balance	74,938,584	110,051,460	110,051,460	72,191,463
Revenue	52,588,725	51,313,979	45,724,119	52,667,952
Departmental Usage	17,475,850	50,881,459	83,584,116	38,662,816
10% Transfers	-	-	-	-
Ending Fund Balance	110,051,460	110,483,980	72,191,463	86,196,599
Change in Fund Balance	35,112,876	432,520	(37,859,997)	14,005,136

The 2013-14 expenses include a \$38.2 million use of fund balance due to Disproportionate Share Hospital returns for 2011-12 and 2012-13. For 2014-15, the Health fund is budgeted to have an increase in fund balance of \$14 million. However, some of this increase may be used to cover the AB 85 redirection of realignment. Revenue is projected to increase slightly and departmental usage is reflecting not using the potential AB 85 redirection at this time.

<b>Breakdown of Departmental Usage of Health 1991 Realignment</b>
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	<b>ACTUAL 2012-13</b>	<b>MODIFIED 2013-14</b>	<b>ESTIMATED 2013-14</b>	<b>RECOMMENDED 2014-15</b>
Arrowhead Regional Medical Center	-	28,006,100	61,008,372	15,905,792
ARMC - Medically Indigent Adult Payments	-	2,550,000	2,550,000	2,550,000
Public Health	10,508,161	15,485,346	15,097,941	15,204,966
Health Administration	6,967,689	4,840,013	4,927,803	5,002,058
Total Departmental Usage	17,475,850	50,881,459	83,584,116	38,662,816

2014-15 Recommended



## **2011 REALIGNMENT**

In 2011, the state addressed prison over-crowding by shifting custodial responsibility of non-violent, non-sex, and non-sex-against-children ('Triple-Nons') offenders to local jails. In addition, the parole function of the state was delegated to county Probation departments; parole revocation hearings were shifted to the local jurisdictions and cases assigned to the District Attorney and Public Defender. The state also realigned Juvenile Re-Entry and Trial Court Security by placing 100% of the financial burden of those programs to the County. The justification for the 'Public Safety Realignment' is that it gives the county flexibility to better provide mental health and social services to the recently incarcerated in the hopes of reducing recidivism and having the net effect of lowering both jail and prison population.

In conjunction with Public Safety Realignment (AB 109), the State also shifted full financial burden of many social service and mental health programs to the County, including: Adult Protective Services, Foster Care, Child Welfare Services, Child Abuse Prevention and Intervention, Drug Court, Medi-Cal substance abuse treatment programs, and the Maintenance-of-Effort (MOE) for CalWORKs. The County was responsible for delivery of these programs before realignment, but with the shift, the State would no longer participate in the share of cost.

While the State no longer shares in the cost, it has dedicated a portion of the state sales tax (1.0625%) revenue, along with a portion of vehicle license fees for these realigned programs. However, realignment of sales tax and vehicle license fees also puts the County at the mercy of the business cycle, as funding will rise and fall in direct correlation to the State's economy. Exacerbating the potential problem, as with 1991 Realignment, when the economy is doing well demand for services goes down but when the economy begins to slump, demand for services rise while revenues decrease. This relationship has been partially mitigated in the past due to the State's share of cost. Since that is no longer applicable, the County is more vulnerable to the market.

In addition, the State is directing funding from 1991 Realignment for Mental Health Services to the CalWORKs MOE portion of 2011 Realignment. Sales tax and vehicle license fee revenue that used to be directed to the fund for Mental Health matching funds is now going to the CalWORKs MOE fund. The Mental Health funding now comes in the form of a defined monthly amount taken off the top of 2011 Realignment revenues. Government code establishes a statewide amount of \$1.121 billion per year directed to the Mental Health Fund with future growth in the CalWORKs MOE fund to be directed to Mental Health as well.

In November 2012, the California voters passed Proposition 30 which increased both Sales and Income Tax. The measure also dedicated a funding stream for 2011 Realignment in the State Constitution. That process has mitigated the revenue stream doubts that existed with the onset of 2011 Realignment, but funding will now, as mentioned earlier, be directly dependent on the health of the economy.

The 2011 Realignment budget units mirror 1991 Realignment in that they do not directly spend or provide service. They are strictly funding budget units with the actual expenditures occurring within the operating budget units of the departments that receive 2011 Realignment revenue.

As with 1991 Realignment, the four service areas of 2011 Realignment (Law Enforcement Services, CalWORKs MOE, Support Services, and Family Support) have each been assigned their own account. The Law Enforcement Services account has four sub-accounts for Trial Court Security, Community Corrections, the District Attorney and Public Defender, and Juvenile Justice. The CalWORKs MOE and Family Support accounts provide funding to pay benefits to CalWORKs clients. The Support Services account has two sub-accounts for Behavioral Health and Protective Services. The Department of Behavioral Health allocates the sub-account funding to the Drug Court and the Medi-Cal substance abuse treatment programs while Human Services allocates the Protective Services sub-account to the appropriate social service program. The following pages provide more detail of the four service areas of 2011 Realignment.



Historical information on 2011 Realignment funding is included in the table below, and detailed information on the four service areas are included on the following pages.

**BUDGET HISTORY FOR ALL 2011 REALIGNMENT BUDGET UNITS**

	ACTUAL 2012-13	MODIFIED 2013-14	ESTIMATED 2013-14	RECOMMENDED 2014-15
Beginning Fund Balance	14,579,889	42,486,068	42,486,068	31,318,143
Revenue	285,129,175	298,212,880	291,405,369	312,425,327
Departmental Usage	257,222,996	319,526,593	302,573,294	315,126,642
Ending Fund Balance	42,486,068	21,172,355	31,318,143	28,616,828
Change in Fund Balance	27,906,179	(21,313,713)	(11,167,925)	(2,701,315)

Total departmental usage of \$315.1 million for 2014-15 is reflected in the table below. Departmental usage is exceeding estimated revenues and will continue to be monitored closely to ensure that fund balance is maintained at adequate levels.

**SUMMARY OF 2011 REALIGNMENT BUDGET UNITS FOR 2014-15**

	Law Enforcement	CalWORKs MOE	Support Services	Family Support	Total
Estimated Beginning Fund Balance	15,910,169	0	15,407,974	0	31,318,143
Budgeted Revenue	97,874,281	56,467,777	144,093,619	13,989,650	312,425,327
Budgeted Departmental Usage	100,575,596	56,467,777	144,093,619	13,989,650	315,126,642
Estimated Ending Fund Balance	13,208,854	0	15,407,974	0	28,616,828
Estimated Change in Fund Balance	(2,701,315)	0	0	0	(2,701,315)



## LAW ENFORCEMENT SERVICES

As mentioned previously in this section, the Law Enforcement Services fund has four (4) sub-accounts: Trial Court Security (administered by the Sheriff/Coroner/Public Administrator's Department); District Attorney/Public Defender (which share the funds equally); Juvenile Justice (administered by Probation); and Community Corrections. The Community Corrections sub-account is administered by the Local Community Corrections Partnership which consists of a membership defined by Penal Code Section 1230 (including the Chief Probation Officer, the Sheriff/Coroner/Public Administrator, the District Attorney, the Public Defender, and other Social Services Executives). The Local Community Corrections Partnership determines how to allocate funding for the Community Corrections sub-account in response to proposals submitted by various departments to fund positions and/or programs beneficial to the implementation of Public Safety Realignment. Departments that receive funding may vary from year to year and funding levels can differ depending on needs and available resources.

2011 Realignment required each county to develop an implementation plan approved by the Local Community Corrections Partnership and the Board of Supervisors. Since the plan included a significant number of additional positions, an appropriation savings occurred because this new staff required extensive background checks. As a result, a fund balance of \$14.5 million existed in the Law Enforcement fund at the end of 2011-12. The fund balance grew by an additional \$16.7 million in 2012-13 due to growth funds received as well as departments were not able to fully implement AB 109 programs as quickly as anticipated. Fund balance will be used for one time needs as appropriate. Detail of the fund balance for Law Enforcement Services is reflected in the following table:

LAW ENFORCEMENT SERVICES				
	ACTUAL 2012-13	MODIFIED 2013-14	ESTIMATED 2013-14	RECOMMENDED 2014-15
Beginning Fund Balance	14,532,866	31,202,922	31,202,922	15,910,169
Revenue	100,792,118	101,376,195	101,376,195	97,874,281
Departmental Usage	84,122,062	117,999,558	116,668,948	100,575,596
Ending Fund Balance	31,202,922	14,579,559	15,910,169	13,208,854
Change in Fund Balance	16,670,056	(16,623,363)	(15,292,753)	(2,701,315)

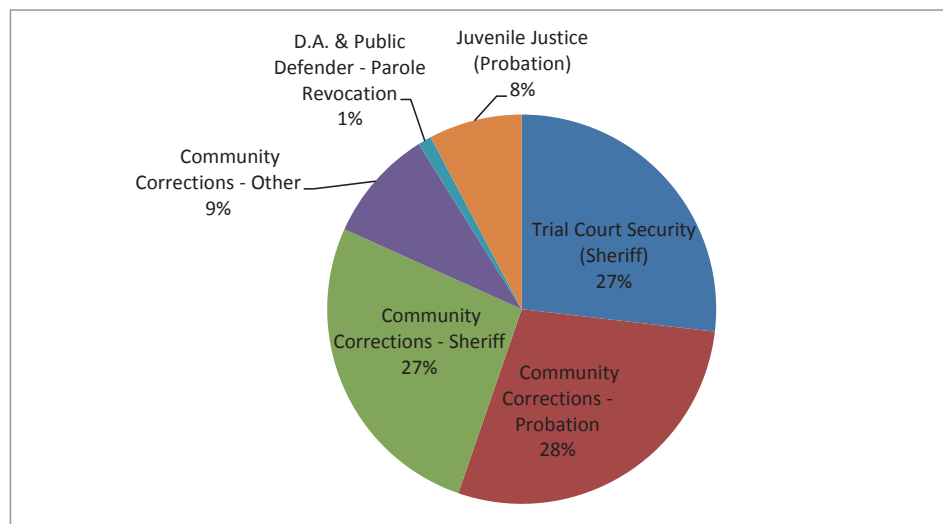
Beginning in 2015-16 a Local Innovation Account may be established by transferring 10% of growth from the sub-accounts in the Law Enforcement fund. Funds in the Local Innovation Account can be appropriated for use consistent with any of the sub-accounts.

Usage of 2011 Realignment funding for Law Enforcement Services is broken out in the table and chart on the next page:



**BREAKDOWN OF LAW ENFORCEMENT DEPARTMENTAL USAGE**

	ACTUAL 2012-13	MODIFIED 2013-14	ESTIMATED 2013-14	RECOMMENDED 2014-15
Trial Court Security (Sheriff)	26,402,887	28,483,832	30,214,995	27,000,000
Community Corrections:				
Probation	17,294,164	37,255,686	33,709,436	28,603,628
Sheriff/Coroner/Public Administrator	25,128,163	34,260,471	34,260,471	26,603,551
District Attorney	1,435,313	2,843,626	2,843,626	2,870,581
Public Defender	1,010,565	2,169,593	2,169,593	2,031,824
Public Health	80,235	106,359	87,741	99,605
Aging and Adult Services	6,084	56,250	56,250	12,951
Behavioral Health	3,818,126	4,124,016	4,124,016	4,124,016
Workforce Development	141,315	159,003	159,003	182,000
Human Resources	114,677	131,242	131,242	118,382
D.A. & Public Defender - Parole Revocation (50/50)	1,049,375	1,229,000	1,229,063	1,135,546
Juvenile Justice (Probation)	7,641,158	7,180,480	7,683,512	7,793,512
Total Departmental Usage	84,122,062	117,999,558	116,668,948	100,575,596

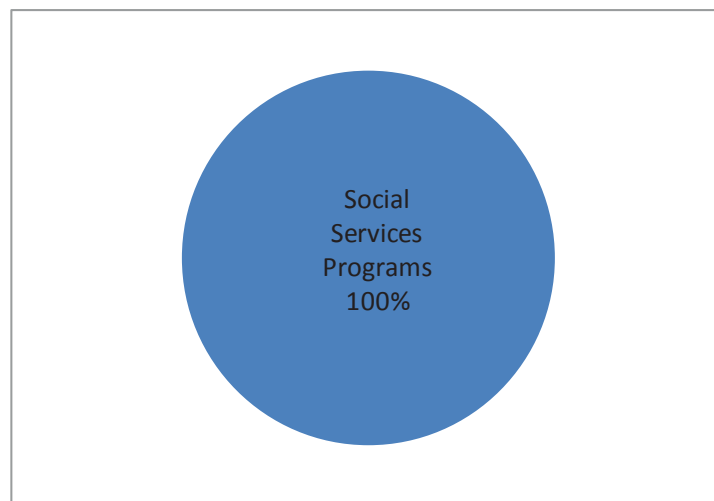
2014-15 Recommended


**CalWORKs MOE**

Funding for the CalWORKs MOE comes from both Sales Tax and Vehicle License Fee revenues. These funds originally funded Mental Health but, as part of 2011 Realignment, the funds were diverted to CalWORKs; and Mental Health now receives a monthly flat amount from the new sales tax revenues brought in with the passage of Proposition 30. There is not expected to be any fund balance since once funds are received, they will be immediately transferred to the fund used for assistance payments to CalWORKs clients. Below is additional historical detail on the CalWORKs MOE fund.

<b>CalWORKs MOE</b>				
	<b>ACTUAL 2012-13</b>	<b>MODIFIED 2013-14</b>	<b>ESTIMATED 2013-14</b>	<b>RECOMMENDED 2014-15</b>
Beginning Fund Balance	0	0	0	0
Revenue	50,367,027	53,523,959	54,523,959	56,467,777
Departmental Usage	50,367,027	53,523,959	54,523,959	56,467,777
Ending Fund Balance	0	0	0	0
Change in Fund Balance	0	0	0	0

<b>BREAKDOWN OF CalWORKs MOE DEPARTMENTAL USAGE</b>				
	<b>ACTUAL 2012-13</b>	<b>MODIFIED 2013-14</b>	<b>ESTIMATED 2013-14</b>	<b>RECOMMENDED 2014-15</b>
Social Services Programs	50,367,027	53,523,959	54,523,959	56,467,777
Total Departmental Usage	50,367,027	53,523,959	54,523,959	56,467,777

2014-15 Recommended

**SUPPORT SERVICES**

The 2011 Realignment legislation allows counties to allocate up to 10% between subaccounts (Behavioral Health and Protective Services). The 10% is based on the amount deposited in the previous year in the subaccount with the lowest balance. The County is not budgeting a transfer between subaccounts in 2014-15 and, in the event that such transfer is needed, Board of Supervisors approval is required. The Board of Supervisors also has the discretion to establish a Support Services Reserve Sub-account by up to five-percent (5%) from each sub-account's previous year's deposits. Additional historical detail of the Support Services fund is included in the tables below.

<b>SUPPORT SERVICES</b>				
	ACTUAL 2012-13	MODIFIED 2013-14	ESTIMATED 2013-14	RECOMMENDED 2014-15
Beginning Fund Balance	47,023	11,283,146	11,283,146	15,407,974
Revenue	133,970,030	143,312,726	135,505,215	144,093,619
Departmental Usage	122,733,907	148,003,076	131,380,387	144,093,619
Ending Fund Balance	11,283,146	6,592,796	15,407,974	15,407,974
Change in Fund Balance	11,236,123	(4,690,350)	4,124,828	0

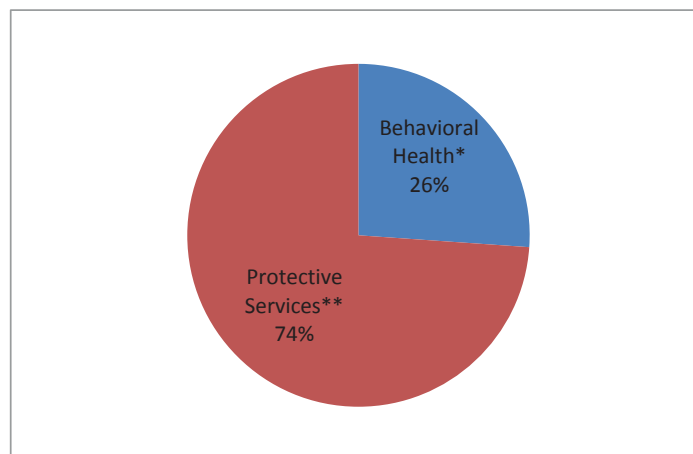
The Support Services fund has two subaccounts: Behavioral Health and Protective Services. Current projections do not reflect any growth in fund balance.

<b>BREAKDOWN OF SUPPORT SERVICES DEPARTMENTAL USAGE</b>				
	ACTUAL 2012-13	MODIFIED 2013-14	ESTIMATED 2013-14	RECOMMENDED 2014-15
Behavioral Health*	31,318,304	43,214,579	38,122,683	37,614,135
Protective Services**	91,415,603	104,788,497	93,257,704	106,479,484
Total Departmental Usage	122,733,907	148,003,076	131,380,387	144,093,619

\*The Behavioral Health sub-account funds Drug Court and Rehabilitative Services.

\*\*The Protective Services sub-account funds Adult Protective Services, Foster Care Administration, Foster Care Assistance, Child Welfare Services, Aging & Adult Administration, Aging & Adult Assistance, and Child Abuse Prevention.

2014-15 Recommended



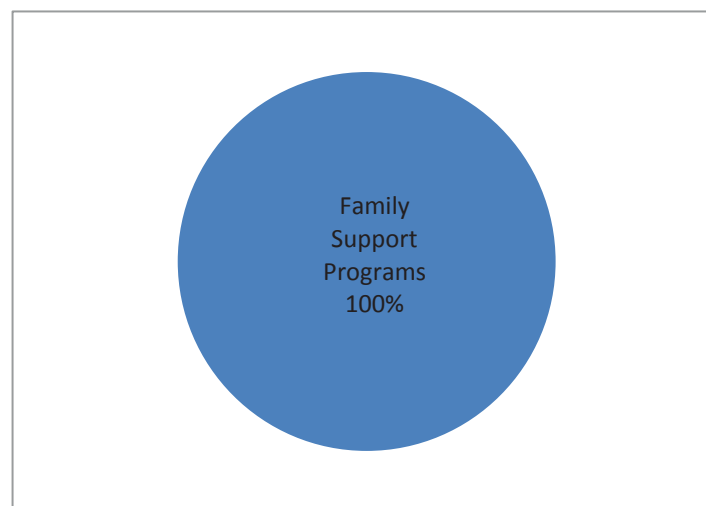
## FAMILY SUPPORT

This is a new fund established in 2013-14 per Welfare and Institutions Code 17600.10(a)(5). Funding for Family Support comes from counties' indigent health care savings that will be redirected from counties' 1991 Realignment Health Subaccounts and moved to the new Family Support subaccount at the state level. Funds will then be allocated to counties from the Family Support subaccount in lieu of state general fund for CalWORKs assistance payments. The distribution of funds is still being determined, but it will be based on counties' CalWORKs general fund expenditures. Below is additional historical detail on the Family Support fund:

FAMILY SUPPORT				
	ACTUAL 2012-13	MODIFIED 2013-14	ESTIMATED 2013-14	RECOMMENDED 2014-15
Beginning Fund Balance	0	0	0	0
Revenue	0	0	0	13,989,650
Departmental Usage	0	0	0	13,989,650
Ending Fund Balance	0	0	0	0
Change in Fund Balance	0	0	0	0

BREAKDOWN OF FAMILY SUPPORT USAGE				
	ACTUAL 2012-13	MODIFIED 2013-14	ESTIMATED 2013-14	RECOMMENDED 2014-15
Family Support Programs	0	0	0	13,989,650
Total Departmental Usage	0	0	0	13,989,650

### 2014-15 Recommended



**AUTOMATED SYSTEMS DEVELOPMENT**

The Automated Systems Development budget unit is a restricted general fund that was established in 2011-12 to fund the development, upgrade, and/or replacement of the County's Financial Accounting System (FAS), a core information technology system; and for other future developments.

The new FAS project is a countywide collaborative effort to replace the existing financial accounting system that was implemented over 20 years ago and does not provide either the efficiencies or information for managing County functions that modern systems provide. In 2011-12, the Board of Supervisors approved a \$6.0 million allocation of Discretionary General Funding to fund this project, and added an additional \$6.0 million mid-year. Although it hasn't been placed in this budget unit, an additional \$13.0 million has been set-aside in general fund reserves for this project. A Request for Information was released in July 2011 and the resulting information was utilized to prepare a scope of services. In 2012-13, the County contracted with the Government Finance Officers Association, which has a history of successful government accounting information system installations, to oversee the Request for Proposal process for the County. In 2013-14 the County released the Request for Proposal and is currently evaluating responses.

Requirements of \$11.9 million represent capitalized software and application development costs associated with the new FAS project.

Below is a table detailing budgeted requirements for this unit in 2014-15.

	2010-11 Actual	2011-12 Actual	2012-13 Actual	2013-14 Estimate	2013-14 Modified Budget	2014-15 Recommended Budget	Change From 2013-14 Modified Budget
<b><u>Requirements</u></b>							
Staffing Expenses	0	0	0	0	0	0	0
Operating Expenses	0	0	78,635	30,000	421,365	391,365	(30,000)
Capital Expenditures	0	0	0	0	11,500,000	11,500,000	0
Contingencies	0	0	0	0	0	0	0
Total Exp Authority	0	0	78,635	30,000	11,921,365	11,891,365	(30,000)
Reimbursements	0	0	0	0	0	0	0
Total Appropriation	0	0	78,635	30,000	11,921,365	11,891,365	(30,000)
Operating Transfers Out	0	0	0	0	0	0	0
Total Requirements	0	0	78,635	30,000	11,921,365	11,891,365	(30,000)
<b><u>Sources</u></b>							
Taxes	0	0	0	0	0	0	0
Realignment	0	0	0	0	0	0	0
State, Fed or Gov't Aid	0	0	0	0	0	0	0
Fee/Rate	0	0	0	0	0	0	0
Other Revenue	0	0	0	0	0	0	0
Total Revenue	0	0	0	0	0	0	0
Operating Transfers In	0	0	0	0	0	0	0
Total Financing Sources	0	0	0	0	0	0	0
Net County Cost	0	0	78,635	30,000	11,921,365	11,891,365	(30,000)
				Budgeted Staffing	0	0	0







Janice Rutherford, Chair, Second District Supervisor | Gary Ovitt, Vice Chair, Fourth District Supervisor | Robert A. Lovingood, First District Supervisor  
James C. Ramos, Third District Supervisor | Josie Gonzales, Fifth District Supervisor  
Gregory C. Devereaux, Chief Executive Officer

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